

103
**EXTENSION OF EMERGENCY UNEMPLOYMENT
COMPENSATION**

Y 4.F 49:S. HRG. 103-81

Extension of Emergency Unemployment...

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

S. 382

FEBRUARY 18, 1993



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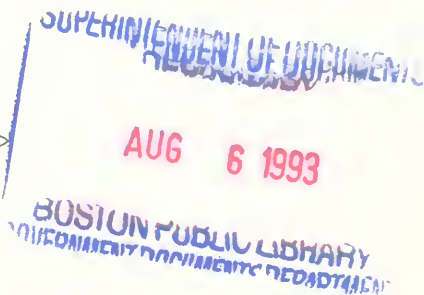
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EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION

THURSDAY, FEBRUARY 18, 1993

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:00 p.m., in room SD-G50, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the committee) presiding.

Also present: Senators Bradley, Packwood, Roth, Grassley, and Wallop.

[The press release announcing the hearing follows:]

[Press Release No. H-1, February 17, 1993]

FINANCE COMMITTEE TO HOLD HEARING ON THE EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION

Senator Daniel Patrick Moynihan (D.-N.Y.), Chairman of the Senate Committee on Finance, today announced that the Committee will hold a hearing on the extension of Emergency Unemployment Compensation (EUC) on *Thursday, February 18, at 2:00 p.m., in room SDG-50, Dirksen Senate Office Building.*

The Federal Emergency Unemployment Compensation program was enacted in November 1991 and extended twice, most recently in July 1992. Currently, it provides additional weeks of unemployment compensation to unemployed workers who have exhausted their 26 weeks of regular State benefits. Certain high unemployment States are eligible to pay an additional 26 weeks of EUC benefits, and all other States are eligible to pay 20 weeks of EUC benefits. The authorization to pay benefits to new EUC claimants expires on March 6, 1993. Claimants who were receiving EUC benefits before this expiration are eligible to receive the remaining benefits to which they are entitled until June 19, 1993.

"Although the economy is at last showing signs of recovery from the recession, there are still more than 9 million unemployed American workers," Senator Moynihan said. "The President's economic stimulus and deficit reduction programs will help promote sustained economic growth, but this cannot immediately provide jobs for many of the long-term unemployed."

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. A very good morning to our guests and our distinguished witnesses.

This is the first legislative hearing of the Finance Committee in this the 103rd Congress. We are addressing a subject that has been with us for a very long while, in the sense of its being our work, and perhaps appropriately following the President's address last evening, which concerned such matters as health care, welfare reform, and job growth.

We are dealing here with aspects of the Social Security Act of 1935. There have been amendments since that time. These have always been a major work of the Finance Committee, but not always seen as such.

And so Margaret Malone, you have come into your own finally as the single staffer dealing with our subject.

The President has sent us legislation which would extend unemployment insurance benefits, which has been the pattern that we have been carrying out for a number of years now.

We are under some time pressure, there being a vote in progress at this point on the National Institutes of Health authorization.

Our very distinguished colleague, the now vice chairman—previously chairman, in the normal rotation of the Joint Economic Committee—is here to open this hearing, the first hearing of the 103rd Congress by the Finance Committee. We are very pleased to welcome our friend Senator Sarbanes.

Sir.

STATEMENT OF HON. PAUL S. SARBANES, A U.S. SENATOR FROM MARYLAND

Senator SARBANES. Thank you very much, Chairman Moynihan. And my congratulations to you on assuming the Chair of the Finance Committee.

The CHAIRMAN. And my congratulations to Rhodes' scholars for taking over the country. [Laughter.]

You are the first of two who appear today.

Senator SARBANES. That is right.

I appreciate this opportunity to testify on behalf of S. 382 to extend the Emergency Unemployment Compensation benefits. And I will try to shorten my statement because I know that it will be placed in the record.

The CHAIRMAN. We will place it in the record.

[The prepared statement of Senator Sarbanes appears in the appendix.]

Senator SARBANES. Congress has extended benefits in the wake of every recession since the 1950's.

In hard times, Americans cannot find work within the standard benefit period of 26 weeks. The economy goes into a recession. You cannot find a job and things are still bad after 26 weeks. So the Federal Government helps out by extending the benefits.

As you know, you chaired these hearings 2 years ago. You got this issue moving 2 years ago when we dealt with extending the unemployment benefits against the opposition of the Bush administration.

The administration argued then that the recession was short and shallow. We did not need to extend benefits. I testified before your committee and predicted at the time that the problem of long-term unemployment would worsen even if the economy turned around.

We fought the administration over that issue. We went through the President refusing to sign a bill, and the President vetoing a bill. Finally, we got a bill enacted when the administration could no longer deny the seriousness of the unemployment problem.

The new administration has submitted a proposal to extend unemployment benefits. I commend the President for doing that, for

perceiving the problem ahead of time, acting on it, not waiting for the Congress to try to press him to do it, and I think this is a critical element of a short-term stimulus package.

In fact, not to extend the program would have a contractionary effect on the economy because you would then lose the income support. You would reduce demand in the economy.

And obviously, you would be cruel to millions of workers who are expected to exhaust their State benefits over the next 7 months and cast people into poverty and onto the welfare system.

Some say, the economy is picking up. We should ride it out? But the Nation's output has been recovering very slowly. And labor market conditions still look more like those of a recession than those typical of a 22-month-old recovery.

We have technically been out of that trough now for 22 months. And for the type of workers eligible for extended benefits, the unemployed long term after losing their job, the job market has never been so bleak this long after a recession.

So I think these unanticipated conditions justify the declaration of an emergency under the 1990 Budget Act. And I commend the administration for being prepared to take that step.

Now, let me just very quickly cover this. Typically, the unemployment rate falls steadily soon after a recession ends. Yet the unemployment rate in January of 7.1 percent was higher than the unemployment rate of 6.8 percent at the recession's end.

Never before has the unemployment rate been higher 22 months into a recovery than when the recovery began.

The CHAIRMAN. Is that a first time in our statistics?

Senator SARBANES. As I understand it, it is. We are 22 months out of the trough, technically in a recovery period and yet the unemployment rate 22 months out is higher than it was at the recession's end.

More to the point of the extended unemployment benefits, the number of workers unemployed longer than 26 weeks, the length of most regular State unemployment insurance programs has more than doubled since the end of the recession, again in contrast to the pattern of typical recoveries.

As of January, almost 2 million workers have been unemployed longer than 26 weeks. There were 600,000 long-term unemployed when the recession began in 1990. It was 900,000 when the recession technically ended. And the figure now is 2 million.

In fact, as this figure indicates, by the 22nd month of prior recoveries, the number of long-term unemployed had declined sharply. In other words, it had come down over a 22-month period to these levels.

In January, 1.5 percent of the labor force had been unemployed longer than 26 weeks, a level exceeded only by the peak unemployment rates of the 1975 and 1982 recessions.

The CHAIRMAN. Yes.

Senator SARBANES. You see in previous recessions, the number of long-term unemployed went up and down. So it went up during the recession. And then it came down as we came into the recovery. That is not happening. That is not happening this time.

Another important hallmark of this recession and sluggish recovery has been the very large number of workers permanently sepa-

rated from their jobs. This situation is worse today than when the recession ended in contrast to the pattern in past recoveries.

In fact, today's 3 percent of the labor force unemployed after permanent job separation has been exceeded only at the worst stages of previous recessions. This chart shows permanent and temporary job layoffs in this recession. You can see how many more permanent separations we have than temporary ones.

The CHAIRMAN. Yes.

Senator SARBANES. So what is happening is one, you are shifting more to permanent separations from temporary layoffs in this recession. And two, the permanent separations are not dropping.

So again, I want to underscore the nature of this particular recovery or lack of recovery. I have used this chart which does not deal directly with the unemployed, but we are in a jobs recession.

What this chart shows is that this is the average of seven previous recession recovery cycles in the post-war period. We would go down into the trough of the recession and we would lose jobs. Then, we would begin to get a recovery, and we would start getting jobs back.

We would come out of the recession, and we would get back all the jobs that had been lost. And then, we would keep on going, getting more and more jobs.

Look at what has happened in this recovery cycle. It went down into the trough. And we are barely picking up jobs to come back out of it. So, in effect, we have a job recession.

Mr. Chairman, to just conclude, I feel very strongly that, in effect, what are existing continuing recession like conditions for unemployed workers justify the proposed extension of this Emergency Unemployment Compensation program.

When we began the program in 1991 and when we extended it again last summer, we had hoped that the labor market would get stronger.

People would be able to find work. And therefore, the need for the unemployment insurance program would diminish. That has not happened.

Unfortunately, due to poor job opportunities, 1.6 million workers are still receiving extended unemployment compensation. An additional 300,000 workers are exhausting their regular 26-week State unemployment benefit period.

Unless we make this extension, literally hundreds of thousands of workers and their families across the country are going to experience poverty, be thrown on the welfare program. The effort for the economy to recover is going to be dealt a blow because you are going to be curtailing purchasing power at the very moment that you need to sustain it.

This committee under your very able leadership in the past has reacted forthrightly and promptly to these problems. And we very much look forward to your action this time again.

The CHAIRMAN. We thank you, Mr. Chairman. Can I just take a moment of your time, as the bell has not rung yet for the second vote we will have today.

Looking at this very powerful figure 2 on the distinction between permanent separations and temporary layoffs, are we seeing the downsizing phenomenon?

I mean, over there in the 1969–1970 column, is this cycle somewhat an inventory cycle and plants would layoff in expectation of calling people back? And people would stay where they were expecting to go back, but now the layoffs are permanent?

Senator SARBANES. That is right. And there has been a marked shift in this recession. In previous recessions, a larger percentage of people were given a pink slip, but told, "If conditions pick up in 6 months or a year's time, we can bring you back."

This time, they are being given a pink slip. And they are saying, "That's it. You are finished. Even if conditions pick up, there is no job back here for you."

So many more are going on to permanent separation. And the permanent separation figures are staying very high.

Now, these are truly the long-term unemployed. They are out there looking for a job. And they are looking for a job in a labor market today in which the unemployment rate is higher than it was at the end of the recession.

The CHAIRMAN. That has to be singular in our statistics.

Senator SARBANES. If someone loses a job, the unemployment rate is 6.5 percent. The assumption is, you carry them through a certain period. The economy picks back up again. The unemployment rate goes down. Their job opportunities open up. And they can find a job as their unemployment expires.

Now, they lost their job when it was 6 percent or 6.5 percent unemployment. The recession is over with. We supposedly recovered. They come back looking for a job. The unemployment rate is higher now than it was when they lost their job.

It is an extraordinary development. That is where I think the stimulus package that President Clinton has proposed is so important. We need to give this economy an impetus to get growth moving and some job restoration.

Of course, if we can succeed in doing that, we are going to diminish our payment for unemployment insurance. These people want jobs. They do not want to be drawing unemployment insurance.

The CHAIRMAN. These are persons who have been in the labor force, who are in the labor force or they would not be counted as unemployed.

Senator SARBANES. By definition, they cannot draw unemployment unless they have had a work record. And it is very important. I mean, we are talking about working Americans here.

The CHAIRMAN. Yes. Does the Joint Committee, or do you just in your own right as an authority in this field, have a sense that you are seeing just a continuing contraction of manufacturing employment here, which is not necessarily the same thing as manufacturing production?

Senator SARBANES. The improvement in the productivity performance in the last couple of years which people point to in part has been brought about by the shrinking of the work force. They maintain the output levels, but they are doing it with fewer people.

In the long run, in an expanding economy, in a vibrant economy that is adjusting to the challenges of the 21st century, that is a desirable thing. You want to improve your productivity, but in the short run, it affects jobs and people unemployed.

So what you want to do is you want to get the economy moving and people back working and improve your productivity in that context so it does not carry with it some unemployment implications. And of course, manufacturing is a sector that I think has been neglected in this country.

I welcome the emphasis the President is placing upon it. Other countries place a heavy emphasis on it. And they do very well at it. Both the Japanese and the Germans have a larger percentage of their economy working in manufacturing than does the United States today.

The CHAIRMAN. That is lead or lag. I will not pronounce. The Secretary of Labor no doubt will want to do that.

But may I ask you an additional question because you have been so very gracious to come and open these hearings? I do not think you will speak for the committee, but as the vice chairman, in rotation, of the Joint Economic Committee, which was established by the Employment Act of 1946, an act which had as its purpose maximizing the use of labor and capital in this country.

I take it to be your view that not to enact this emergency legislation, which would provide benefits of \$5.5 billion, would in itself be contractionary in the economic sense, 21 months into the slowest recovery we have in our statistics since the Employment Act was passed?

Senator SARBANES. That is right. That is absolutely correct.

The CHAIRMAN. I think we are dealing with something new. We have never seen the likes of it. Surely, this seems to be an appropriate response.

Mr. Chairman, we thank you very much for coming. We appreciate this. And could you leave those charts behind?

Senator SARBANES. Sure.

The CHAIRMAN. Because other members have not seen them, since we are all voting. We still haven't called that second vote that we knew was going to be called 20 minutes ago. You were wise to come over here. You have a sense of the direction of things. [Laughter.]

Your forecasting abilities have been demonstrated once again.

Senator SARBANES. Well, thank you very much.

The CHAIRMAN. Thank you, sir.

Senator SARBANES. Thank you.

The CHAIRMAN. We have a dilemma of sorts, which ought to be resolved, if the Secretary will not mind if I suddenly have to disappear. We were intending to vote earlier but that vote has been delayed.

And so won't you come forward, sir, and we will begin.

I'm sorry. We have to vote.

We will stand in recess for 10 minutes.

[Whereupon, at 2:32 p.m., the hearing was recessed until 2:48 p.m.]

The CHAIRMAN. I wonder if we could resume our hearing.

Mr. Secretary, the committee requests your presence.

We ask our guests to appreciate the schedule we are on. And we will have order.

Mr. Secretary, before you make your presentation, we have a very distinguished member of the committee here. Others will be coming in. We are having our last vote of the day.

Senator Packwood.

Senator PACKWOOD. First off, I will be glad, Mr. Chairman, when we get our room back.

The CHAIRMAN. Well, you are in the era of Democratic promise. So you just to have to figure out——

Senator PACKWOOD. Oh, in that case, are we going to pay for it? [Laughter.]

The only question I would have of the Secretary, I am curious as to how we are going to pay for this or if we are going to pay for it. And I will be happy to hear the answer.

The CHAIRMAN. Could I put on the record that the amount, I believe, is \$5.55 billion. Is that right, sir?

Mr. REICH. Yes. \$3.5 billion. Let's see. I will give you the precise figure, \$3.2 billion in fiscal year 93 and an estimated \$2.4 billion in fiscal year 94.

The CHAIRMAN. And the question that the Senator asked you?

Mr. REICH. Should I submit my testimony or should I——

The CHAIRMAN. Would you do it in your testimony?

Mr. REICH. Fine. In the testimony.

The CHAIRMAN. By way of opening statement, the former chairman asked if you would answer that question and get to it in your testimony.

Mr. REICH. I certainly will.

The CHAIRMAN. Senator Grassley.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Mr. Chairman, I am going to submit my statement.

I would just simply say that it follows the same question that Senator Packwood raised, but one additional thing is I have seen some problems in the applicability of present law in my State and I have tried to raise this in previous extensions.

And there are still points where some people, who I think legitimately ought to be getting some help, regardless of the level of funding who are not being helped.

And I am going to be raising those points in my statement. So I will just submit my entire statement for the record.

The CHAIRMAN. We thank you, Senator Grassley.

[The prepared statement of Senator Grassley appears in the appendix.]

The CHAIRMAN. And Senator Roth.

Senator ROTH. Mr. Chairman, I have no opening statement. It is a pleasure to welcome the Secretary. And I look forward to hearing him.

The CHAIRMAN. And we do indeed, welcome you, sir, on your first appearance in a legislative matter. Could you introduce your associate?

Mr. REICH. Yes. Please. Carolyn Golding is the Acting Assistant Secretary for Employment and Training. And every question that

is a difficult question which I cannot answer, I will refer to Carolyn Golding.

The CHAIRMAN. That is understood.

Secretary Golding, we welcome you.

Mr. Secretary.

STATEMENT OF HON. ROBERT B. REICH, SECRETARY OF LABOR, WASHINGTON, DC

Mr. REICH. Chairman Moynihan, Senator Packwood, and members of the committee, thank you for allowing me to testify.

I am pleased to be here to present President Clinton's proposed legislation to re-authorize the Emergency Unemployment Compensation program. The cause, let me emphasize with all of you something that perhaps should not be emphasized, need not be emphasized, the cause is urgent.

Less than 3 weeks from today, nearly 1.8 million jobless Americans risk losing their shield against financial despair if the emergency unemployment extension is not provided.

Extending emergency unemployment compensation until October 2 of this year will provide those Americans with breathing room while they seek new employment.

The employment package that we are proposing also has a new twist, which I want to briefly commend to your attention, and that is a small amount of money, approximately \$25 million, small by budgetary standards here in the Senate and elsewhere, providing to States for the purpose of identifying very early on long-term unemployed individuals, who are likely to be long-term unemployed that is, to refer them to job training, counseling, employment services at a very early point.

New Jersey had this experiment. It turned out to be actually a money saver, on average reducing the duration of unemployment. And our calculation is that this small investment, relatively small investment paying the States simply the administrative costs, computer technology cost of identifying those individuals, finding out which industries are likely to be contracting, which individuals are likely to be long-term unemployed, will actually save money because it reduces the duration of unemployment.

This is government at its best I believe. It is a small step, a small step in the direction of integrating unemployment insurance with job training, counseling, and information, a step that I think is long overdue. Many States are beginning it. We want to provide that extra push in that direction.

Let me underscore—

The CHAIRMAN. Excuse me. If I could just put it this way—that with the half-century experience of this program you are beginning to get a profile of persons who have lost their job as against just been laid off until the plant, following an inventory or recession or whatever, starts hiring again.

There will be in certain geographical places, individuals to whom you can now say, you are going to have to be able to do something different.

Mr. REICH. That is right. A very high likelihood that that individual is not going to get the job back.

Let me also bring your attention to this chart over here which I brought, which shows the urgency of this particular kind of program and the degree of the new problem we face, having to do with structural unemployment in this country.

You can see on the left, usually around 44 percent of the unemployed in any recession, and that is the average for four prior recessions, believe and appropriately believe that they are going to get their job back.

They are laid off, but their employer and they both register when they register for unemployment that they are going to get their job back. They are laid off. They are the classic people for whom unemployment insurance is intended.

Unemployment insurance was envisioned as a cyclical program, temporary. But then, you see over here on the right, only 14 percent of workers who are unemployed these days believe that they are going to get their job back and have any indication that they are laid off.

A whopping 86 percent believe justifiably presumably that they are laid off permanently, that they are not getting their job back. This is a structural problem which is a tremendous structural problem.

Let me just add and I want to embellish and underscore something that Senator Sarbanes said—the point that he was making before, before this committee, and that is that only in theoretical terms do we actually have a recovery.

We have a recovery if you define a recovery in terms of economic growth, but only you leave jobs out of your calculation. On the other hand, if you define a recovery in terms of jobs coming back, we are not yet in a recovery.

This is more than a semantic quibble. The assumption has always been that economic growth was coterminous with job increases and reductions in unemployment levels. This time we are seeing something quite different.

The CHAIRMAN. This is what Senator Sarbanes said. And you are saying, we are in a new kind of recession.

Mr. REICH. This is a new kind of recession in which jobs are not coming back.

The CHAIRMAN. A new kind of recovery.

Mr. REICH. A new kind of—well, it depends again. It depends upon your vocabulary. It is an epistemological issue. The question is, what are we in if the jobs are not coming back? The notion of a jobless recovery is an oxymoron. It is very difficult to have a recovery if jobs are not coming back.

The data suggest jobs are not: a 7.1 percent unemployment figure. The most recent unemployment figure is exactly what we had a year ago. It is higher than the 6.8 percent we had at the trough of the so-called recession before we began the so-called recovery.

We are now seeing longer durations, a period of longer duration of unemployment with regard to the need for unemployment compensation than we saw at the worst point in the recession.

We are also seeing that the number of people, percentage of unemployed who have exhausted their unemployment compensation is much higher now than it was at the worse point in the recession.

In other words, all of the job indicators suggest that we are not out of the woods. In fact, to some extent, we are worse off than we were before, 22 months beyond the trough of a recession, which is where we now are. March 1991 was the trough.

The normal pattern—if you can take the last four recessions as normal. The normal pattern is to have about 3.5 million more jobs than you had at the trough, but we now have less than 500,000. In other words, we are 3 million jobs short.

All of this underscores one basic point. This is something new. This is something unusual. Jobs are not coming back.

It underscores the necessity for extended unemployment insurance at this time, extended unemployment insurance with the addition, as I just said, of that particular twist that we are adding to integrate all of that.

Let me particularly address Senator Packwood's point, where is the money coming from? We are seeking—the administration is seeking \$3.2 billion in fiscal year 93 and \$2.4 billion in fiscal year 94. The fiscal year 93 funds are part of the stimulus package.

Again, there are two simultaneous objectives here. One objective is to help relieve the pain and suffering and deal with enormous problems that people are now having in this very unusual recovery, if you want to call it a recovery.

But the second objective is to stimulate the economy, to give a little bit of a pump prime to the economy. In order to do that, in order to stimulate the economy, you have to spend money.

One very fast way of getting money into circulation is to spend it with regard to people who are in the deepest pain. Once they have a little bit more cash, they therefore can buy groceries. They can pay their bank loans.

They can do all kinds of things again that keep the economy afloat, that stimulate the economy, and hopefully have a multiplier effect so that the economy can get back on track.

And let me emphasize one final point, and that is that even when the economy gets back on track, even when the jobs come back, if recent history is any guide, those jobs are not going to be terribly good jobs.

For 75 percent of Americans, usually those without college degrees, we find that the quality of the jobs that are coming back are relatively poor jobs, often worse than the jobs they had before.

Hence—and I know that this is not the subject of this hearing, but hence the larger economic package that President Clinton introduced last night with regard to long-term deficit reduction and also long-term public investment because you will not get good jobs in this economy over the long term unless we invest both publicly and privately.

Again, I wanted to simply frame this issue in the large so that we had a context in which to examine this particular subject.

Thank you.

[The prepared statement of Mr. Reich appears in the appendix.]

The CHAIRMAN. We thank you, Mr. Secretary.

Just as a matter for the record, perhaps we can get Secretary Golding to help us there, just a little more detail on the New Jersey demonstration job search program. It makes good sense.

Mr. REICH. I could give a little detail. Carolyn could—

The CHAIRMAN. If you want to give it to us in writing, we would be happy to have it. Let us have—

Mr. REICH. We can give it to you in writing, but let me give you the principal of what we are proposing because it does derive from that New Jersey experience.

This is not punitive. This is not conditional. People still will get their unemployment insurance.

But after 5 weeks—after 5 weeks which is about the amount of time that is needed and New Jersey shows it is needed to get the information processed, by 5 weeks you identify people who are likely to be long-term unemployed.

And then, the referral service to training and to employment advice, counseling does have an extremely salient effect.

As you know, the U.S. Government Department of Labor does about \$.5 billion worth of training a year with the States. There are training programs out there, but unless you get this dovetailing of unemployment insurance and training, then it is often difficult for people to lift themselves out of their predicament.

The CHAIRMAN. I know that the first legislative achievement of the Kennedy administration 32 years ago was the Manpower Development and Training Act of 1962 which began the Manpower Report.

I do not think that we would have imagined that 30 years hence, we would be seeing what seems a more intractable side. I think Senator Packwood is very aware of this.

Productivity is improving. There are going to be excess workers in a sector, and you have to find them a different one. That is all. There is nothing the matter with turning out more goods with fewer people. It is a problem only if you think the people thereafter can be discarded.

But I guess your point is that if the only factory in town is closed, there is no point in telling people to wait around on unemployment compensation until it starts hiring again.

Mr. REICH. Well, exactly. People need information about where jobs are. They need training in order to get those jobs. Presumably, when the economy picks up, if the economy and when the economy picks up, there is still a need for that kind of assistance.

The CHAIRMAN. Right.

Senator Packwood.

Senator PACKWOOD. Why aren't the jobs increasing?

Mr. REICH. Well, there are a number of theories about that. And let me give you what I consider to be the best and most accurate theories, although again, let me caution you that these are theories. People simply do not know.

Economics is a social science. Some economists pretend it is a physical science or a mathematical science. It is not. It is a social science and a psychological science.

A lot of small and medium-sized businesses which are the engines of job growth are holding back. They are employing their current employees to a greater extent.

There is more overtime going on than before, but they are holding back on new hires. And I think they are probably doing so for a couple of reasons.

Number one, they have burned before in this recession. There have been two false dawns. It is expensive to bring on a new worker, even in terms of training and payroll taxes and so on. You want to be very sure before you bring that worker on that there is a market.

But on other hand, if you see that there is no new employment around you and that this recession may continue, you may not bring on that new worker.

It is kind of a chicken and egg phenomenon, a gridlock phenomenon. If everybody has the same attitude, if everybody is scared to bring on new workers because you do not have a full economic recovery yet, then by definition, you do not have a full economic recovery.

The second point has to do, I think, with credit. There is some evidence that banks are holding back still. Bank examiners have been perhaps occasionally in some regions of the country a little bit overly cautious with regard to providing bank loans to small and medium-sized businesses.

And therefore, again, you get a little bit of a credit crunch when it comes to expanding or making new hires or venturing forth.

Those are two theories. There may be others, but it seems to me that those are the most likely reasons.

Senator PACKWOOD. So assuming a bootstrap argument, if the President's economic program, it is not going to pass like that, but if the President's economic program is presumed by the country that it is going to pass, one, and, two, it is presumed by the country that it is going to help, then these businesses will start to hire. They will feel comfortable that the economy is not going to slip backwards again. And they will add people?

Mr. REICH. Well, ideally, that would be the case. It is our view that we still need some pump priming. We still need to break the gridlock and provide a stimulus in the order of \$30 billion of which this unemployment insurance is part, this extension.

You need that in order to just get the things going. The particular focuses, the particular jobs that would be created by that stimulus package in themselves about 500,000 net new jobs are significant, but they have a multiplier effect because again, as I emphasized before, each of these jobs, once people have more income, they, in turn, can buy more. And you ideally break that gridlock. And you do exactly what a pump does when it primes.

Longer term, however, even when we get the economy back on track, this track needs to be improved. The track is not a good track. We need more investment, public sector and private sector.

We need to bring down the budget deficit in order that the private sector has the wherewithal to make investments in factories and equipment.

And we also have to increase public investment in the foundation stones of economic growth, education, training, research, development, roads, bridges, and so forth of which public investment has been declining in recent years as a proportion of GDP.

Both have to happen in the long term. In the short term, a stimulus package in our view is necessary simply to break the gridlock, get small and medium-sized businesses hiring.

Senator PACKWOOD. I understand that. The reason that businesses are not hiring now is because they are not sure we are yet on any track, let alone the right track.

As soon as businesses think that we are on the right track, they will start to hire, whether the pump priming is part of that or not. What you say is they need the confidence that things are going to continue up before they will hire?

Mr. REICH. They need the confidence that things are going to continue up, that there is an economic strategy, that that economic strategy over the long term is going to reduce the budget deficit, increase investment, increase public investment.

Absolutely, we view this stimulus package as a kind of down payment on that longer term strategy.

Senator PACKWOOD. All right. Now, let's go to the definition of emergency because I normally think of that as unexpected, as sudden. Of all the things that are not an emergency in that definition has been the projections on unemployment and roughly where we are.

What is the justification for declaring an emergency here and therefore not worrying about the budget cap?

Mr. REICH. Well, first of all, Senator, there are several points here. One, as you know, when the first emergency extension unemployment benefits was granted, the actual unemployment level was lower than it is today.

With regard to the stimulus package in general, if you are asking about the fiscal year 93 appropriation which is to be expected and hoped for with regard to a stimulus package, the notion again is that this—and I have to underscore this.

I don't want to sound like a broken record, but it is an emergency in a sense that jobs are not coming back. This is a continuing jobs recession.

If you were asking me my definition of what is an emergency, I can tell you that when you have nearly 10 million people continuing to be unemployed and when you have almost 4 million people continuing to be too discouraged to look for work, when you have vast numbers of people who are working part-time who would rather be working full time, you have what I would define—and it has been going on as long as it has been going on even though the rest of the economy seems to be ascending, you would have what I would consider to be the conditions of an emergency.

Senator PACKWOOD. And if for whatever reason the President's program does not work, it will be a continual emergency then?

Mr. REICH. Well, it is better than nothing. As FDR and others have said after him, if the choice is between sitting and doing nothing or experimenting and trying something and the status quo is no good, then try something, do it, act.

Senator PACKWOOD. Let me ask you a question on a related subject, the targeted jobs tax credit.

We have appropriated money for the Labor Department and for the States to deal with the paper work necessary to investigate and certify each targeted employer's eligibility. And the money was not spent.

Do you intend to release these funds and allocate them? And if you are not up to speed on this, I would understand why. And I will give it to you in writing.

Mr. REICH. All right. I have been on my job 3½ weeks, Senator. I am trying to get up to speed, but Carolyn Golding, I am going to defer to her.

Senator PACKWOOD. All right.

Mr. REICH. Let me ask Carolyn to answer that for you.

Ms. GOLDING. That is a decision that is still pending. What is happening right now is the State employment security agencies are doing the paper work and holding it, since no employer can file for the tax credit.

Senator PACKWOOD. That is correct.

Ms. GOLDING. No employer is losing any money nor are we losing the paper work until the final decision is made on whether and when and how to release those funds. But it is definitely a decision pending with us.

Senator PACKWOOD. Only a few of the States are doing it voluntarily though. I think most of them are not. They are sort of waiting for the funds, waiting for the Department of Labor's decision.

And I am not being critical here because the last administration did not release them. We wrote to Secretary Martin. And I would be happy to give you a very specific letter on it if I could get a very specific answer.

Ms. GOLDING. Surely.

Senator PACKWOOD. All right.

Mr. REICH. We will.

Senator PACKWOOD. Thank you, Mr. Chairman.

The CHAIRMAN. Can I just note that we have kept the Secretary. He is supposed to be in four different places, just as the members of our committee. I have come in and now have to turn around and go off again.

Senator Chafee, in particular, said that he just was not going to be able to come, but he wishes he could.

Can I just note? You mentioned President Roosevelt. The report of the Committee on Economic Security was presented to him on January 15, 1935. That was the committee that Professor Witte chaired.

With respect to the unemployment program, it was that committee that proposed it, and it came to be part of what we know as Social Security. Economic Security was the committee's name.

It proposed unemployment compensation, as I noted at the outset. And it said not only that people out of work need revenue, need something to live on, but it said that this is especially valuable for those who are ordinarily steadily employed, and very beneficial also in maintaining purchasing power, which is the point that Senator Sarbanes made—that it would be a contractionary measure not to do this.

And could I ask for your professional judgment, and as a member of the Cabinet?

Mr. REICH. Well, I will give you both judgments because they are the same, and that is that, yes, indeed, a failure to do this and a failure to generally stimulate the economy is, indeed, likely to be contractionary here especially because we are finding a larger and

larger number of people who simply do not have the purchasing power to keep the economy going.

I heard your short colloquy with Senator Sarbanes about productivity improvements, Mr. Chairman.

I think therein also lies a tale because you have many, many American companies, particularly in manufacturing, increasing their productivity by reducing their labor force, not by training their workers to add value, but simply by changing the ratio of machines to people.

And when you have that form of productivity, well, that is productivity increasing in one sense, but you are not increasing the per capita productivity of your population. And that——

The CHAIRMAN. That is man-machine tradeoff?

Mr. REICH. That is right. And naturally, we are now at a stage in our economy in which we have to invest in people as well as machinery.

Machines go everywhere around the world. We are competing with machines that can as easily be in Southeast Asia as they can be here.

So it is terribly important for us, both with regard to the public sector and the private sector to invest in the asset that is a uniquely American asset, and that is the quality of our labor force.

The CHAIRMAN. The last question from me, sir, and this is a new idea to me—that a business decision can be made either to upgrade the productivity of your work force, or to upgrade the productivity of your machinery, and you can have incentives in one direction or the other. Taxes may make the decision.

Is there some literature on this?

Mr. REICH. There is. And I would be delighted to supply the chairman with some studies, interesting case studies.

The CHAIRMAN. Not too long.

Mr. REICH. Sir?

The CHAIRMAN. Not too long.

Mr. REICH. I will do the shorter version. I will give you the shorter version.

But interesting case studies of industries in which you have certain companies choosing one road, that is the road to productivity through more machinery and fewer people and other members of the same industry choosing the other road which is keeping basically your machinery, but investing in your work force to utilize that machinery better, you get sometimes about the same levels of productivity.

In fact, the one study, the most recent study of the steel industry showed a higher level of productivity in the companies that had invested in their people rather than upgrading their machinery.

The CHAIRMAN. I think the committee would like to have those references. We would appreciate them.

[The following information was subsequently received for the record:]

The two studies the Secretary referred to are:

“Integrating Technology and Human resources for High Performance Manufacturing: Evidence from the International Auto Industry,” by John Paul MacDuffie and John Krafcik, in *Transforming Organizations*, edited by Thomas Kochan and Michael Useem (Oxford University Press 1992, pages 209–225); and an unpublished study of the steel industry by Casey Ichinowski of Columbia Business School.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Senator Wallop will have some questions that he will get to you in a day or two.

Mr. REICH. Okay.

The CHAIRMAN. We will leave it that any member of the committee—this is one of those weeks.

Mr. REICH. I know it well.

The CHAIRMAN. It comes every 4 years. And anybody who has questions will get them to you because we will not be bringing this legislation to the floor for a week or so.

[Senator Wallop's questions appear in the appendix.]

The CHAIRMAN. Let's see. March 4, is that our date?

Mr. REICH. Well, the 6th is the date by which—

The CHAIRMAN. The President wants to have signed this bill.

With that, Mr. Secretary, once again, it is a joy to have you here.

Mr. REICH. Thank you.

The CHAIRMAN. We will see much more of you. We are looking forward to it. And thank you for bringing Secretary Golding.

Madame Secretary, we are pleased to have you here. I believe this is your first occasion. And it will not be the last.

And we look forward to these various materials you are going to send to us.

Mr. REICH. Thank you very much.

The CHAIRMAN. I think Senator Packwood indicated a particular interest in the targeted tax credit. And you are going—

Mr. REICH. Yes. We will get you that.

The CHAIRMAN. Thank you.

Mr. REICH. Thank you.

The CHAIRMAN. And now we have a panel of knowledgeable citizens here on the subject. If they would just come forward.

First, Mr. Warren Blue who is the senior vice president and general counsel of R.E. Harrington, Inc. of Columbus, who is appearing on behalf of the Council of State Chambers of Commerce.

We have Mr. William J. Cunningham who is the legislative representative of the AFL-CIO.

And we have Andrew Richardson who is commissioner of the West Virginia Bureau of Employment Programs and president-elect of the Interstate Conference of Employment Security Agencies.

Gentlemen, as it happens, we will just hear from you in the order that you appear on the witness list.

Mr. Blue, we welcome you to the committee.

STATEMENT OF WARREN BLUE, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, R.E. HARRINGTON, INC., COLUMBUS, OH, ON BEHALF OF THE COUNCIL OF STATE CHAMBERS OF COMMERCE

Mr. BLUE. Senator Moynihan, thank you very much.

As you have mentioned, my name is Warren Blue. And I represent the Council of State Chambers of Commerce and thus the employer community, which I am sure you are knowledgeable that the financing of the unemployment system is a 99.9 percent employer payroll tax. And we believe we are one of the players in this system.

We do have some concerns we would like to put on the record, not only for now, but for the future thoughts of this committee and hope that they will pay attention to what we are saying because it is our approach that the unemployment system as it stands, the Federal-State system, should be continued as it has been since 1939 and that if there is a long-term unemployed problem in this country, and there is, that that should be addressed separately.

The basic question is, how many times can the unemployment system though these special extensions be extended and it still be maintained as a social insurance program and not become a welfare program?

Our concern is continuously that there will be a merging together of the very well respected and, by the way, a large, vast majority of employers in this country support the unemployment system.

The CHAIRMAN. Right.

Mr. BLUE. I want you to be sure that we put ourselves on the record as saying that.

The CHAIRMAN. On the basis of this Senator, may I say that it is very well understood. I was an Assistant Secretary of Labor many years ago. And it was one of the emphatic things one learned.

Mr. BLUE. Our concern only is that something may happen now to merge us together with what is a long-term problem which the unemployment system as it originally was established was designed to deal with short-term unemployment.

And short-term unemployment over the years has meant a 26-week State benefit program and now an permanently extended benefit program which applies 13 more weeks. And then, after that point, the employers believe it becomes something else.

I do not know what the something else is, but we would like to have it dissociated from the long-term unemployed problem. We are certainly not trying to put our heads in the sand and claim there isn't one. There is one.

We would certainly like to be part of the solution to it, but we would like to dissociate the unemployment system from the long-term unemployment problem.

There has been a lot of criticism of the present State-Federal system in that it has not dealt with long-term unemployment. And it has not. Well, it was never designed to do that. And we reiterate that why try to break something that is working well now?

That does not mean it takes care of the unemployed who have long-term problems, but it does take care of the unemployed who will be able to get back some of their jobs.

And by the way, we have always been in favor of early intervention in the unemployment spell. Five weeks is fine. Some States are doing it then. Some States are doing it later to try to find out about this particular claimant, to try to get them back on track.

In fact, we have been personally asking States to be sure that every unemployed person who files for benefits registers with the State unemployment agency, the State employment service agency, the job service agency of the various States.

And I will be honest with you, not every State was doing that. I believe probably that is becoming a smaller and smaller number.

But that fits right in with your proposal and the Secretary's proposal for a 5-week intervention. Five weeks would be a very early intervention, but certainly a great idea.

So clearly, education, training, and retraining are very important parts of the long-term unemployment program. We just do not think it should be financed under the State-Federal payroll unemployment tax system.

Any unemployment insurance taxes paid for purposes other than benefits and administration means that there is less money available for paying adequate benefits which, by the way, would have an adverse effect on the economy.

And the Secretary mentioned that these unemployment benefits buy real things. They buy people's food and the things that they have to have to live on. And that is a stimulus to the economy. And for that reason, I suspect that is why you are considering exactly what you are considering here today.

We appreciate the opportunity to present our views on this and very much would like to work with the Congress and the administration in trying to develop a long-term unemployment program.

Thank you.

[The prepared statement of Mr. Blue appears in the appendix.]

The CHAIRMAN. Thank you, sir.

And if the Senators are agreeable, we will just hear each of our witnesses.

Mr. Cunningham.

STATEMENT OF WILLIAM J. CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, AFL-CIO, WASHINGTON, DC

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

I am glad in listening to Senator Sarbanes and Secretary of Labor Reich that they agree that this is not a recovery. For working men and women, the term jobless recovery is an oxymoron. It does not make any sense.

I listened to Mr. Blue. We support the extension. So I will go right to it. I listened to Mr. Blue very carefully. And we have appeared on panels before.

It seems to me that the idea that the unemployment compensation program and system is locked into a 1935 Social Security Act and not subject to new economic changes would probably have doomed the Social Security Commission in which you served since "we can't do any changes in Social Security System given the demographic changes in this country."

It seems to the AFL-CIO and, I think, everyone that the unemployment compensation system has to be looked at again.

The reason we are here on this emergency extended benefits program is because of the end date that you put on it, March 6th, but the other point is that "trigger" never fires on the regular extended benefits program.

On the regular extended benefits program, the only territory that would trigger on is Puerto Rico. So that is why we are here fixing it with a federally financed extended benefits program.

Let me briefly suggest, and Mr. Blue provided the means for doing it, is that the AFL-CIO believes that we have to extend this program.

It should go beyond October 1st, but let me point out that when this program was originally proposed, the cost was going to be \$3.2 billion. This was 2 months ago.

The re-estimate of it is now it is \$5.6 billion for 2 years. What that means is that everyone is projecting long-term unemployment is going to continue through 1993 and extend way into 1994.

Obviously, the work force changes require some substantive, re-evaluation of the unemployment compensation system per se.

My testimony basically goes into those areas that we think should be addressed, but you should remember, and I am sure you do, Mr. Chairman and members of the committee, that when the economic recession was in full force—1989–90, the unemployment compensation system for initial coverage only covered one-third of the workers who were unemployed.

It was at the beginning and during the recession that the system showed its biggest flaws. The only way we got up to 50 percent coverage on unemployment compensation is when you put in the fully federalized extended benefits program.

So there is at least an indicator that for traditional recessions, this existing unemployment compensation program does not work.

I talked about the regular extended benefits program trigger. We think that is broken and should be fixed.

The State solvency issue is one that you basically do not look at very often, but it is one that basically forcing States to borrow from the Federal Government, pay interest on that debt. It basically keeps a downward pressure on eligibility and should be looked at.

And finally, Mr. Chairman, the State unemployment compensation system and employment services which is where this \$23 million that Secretary Reich proposes in is the traditional budget-cutting item in the appropriations process.

As Senator Packwood pointed out in the targeted jobs tax credit area, they basically have not allocated any money for it.

But if the truth be known, every time there is a budget cut in this area, basically it goes to State employees who administer this program to basically keep the Federal deficit down.

In conclusion, Mr. Chairman, the AFL-CIO supports the extension of this program and would suggest that this committee encourage the commission formed by this committee to meet on the unemployment compensation program to evaluate its relevance for the job force that we have in the 1990's and will have in the year 2000 and beyond to find out if the program that was developed honorably and with a lot of forethought in 1939 is appropriate to this work force.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cunningham appears in the appendix.]

The CHAIRMAN. We thank you, Mr. Cunningham.

And we will get to each of you after having heard from Mr. Richardson.

**STATEMENT OF ANDREW RICHARDSON, COMMISSIONER,
WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS,
CHARLESTON, WV, AND PRESIDENT-ELECT, INTERSTATE
CONFERENCE OF EMPLOYMENT SECURITY AGENCIES**

Mr. RICHARDSON. Thank you, Mr. Chairman.

My name is Andy Richardson. I am the commissioner of employment programs for the State of West Virginia and president-elect of the Interstate Conference of Employment Security Agencies.

I am here in that latter capacity. That is the organization of administrators who administer unemployment compensation, the public job service and, by and large, the Job Training Partnership Act programs.

Thank you very much for having me here today.

I would like to begin by observing that since November of 1991 when this program was enacted, the State employment security agencies have made 90 million payments to 5 million unemployed workers who had already had their regular State unemployment compensation benefits expire.

My colleagues and I are proud of the efforts of our staff at the State level. Benefits were paid promptly. Extensive computer programming and changes were made. And we are proud of the efforts that they were able to embrace.

I would only ask for a few items as you consider the Emergency Unemployment Compensation extensions. First, please keep this extension as simple as possible.

This is a very complicated program to administer. Any further changes in the program would merely make it more complicated.

I would like to draw your attention to an example. There is a provision in the existing law that allows an unemployed worker to choose between continuing on the regular benefit program if they re-qualify or electing to go into the Emergency Unemployment Compensation program if it is more attractive.

The Department of Labor prepared an extensive paper of questions and answers for our guidance. And with your permission, I would like to submit that into the record today.

The CHAIRMAN. Please do. We will have all statements in the record, but that, of course, yes.

[The information appears in the appendix.]

Mr. RICHARDSON. Thank you. I will present it to the reporter at the end of our presentation.

The important point here is please try to make every effort to keep this as simple an extension as possible.

ICESA has long supported repeal of the Federal terms and conditions imposed for participation in the permanent Federal-State extended benefit program.

We would request that these terms and conditions that have been suspended for that Federal-State program under the act of last fall be suspended for the emergency program as well.

I would also like to touch briefly on the profiling issue and the opportunity for early intervention.

We strongly support the concept of early intervention and having an impact on potentially long-term unemployed workers.

We know that with the proper diagnostic tools, we can have a positive impact on this. However, this is not something that would

just happen magically. And the funding for the employment service element of this system is sorely lacking. It was cut last year.

In 1982, the system had a ratio of employment service staff to the civilian labor force of about 1 to 3,600 civilian labor force participants. Today it is about 1 to 7,500 civilian labor force participants.

The CHAIRMAN. Good God.

Mr. RICHARDSON. In West Virginia, we have gone from 45 local offices to 19 local offices, even though we have chronically high unemployment.

Employment service funding for fiscal year 93-94—starting this July—was reduced from \$821 million to \$813 million. So there will be further cuts, yet we are being asked to step up efforts to reemploy hard-to-employ individuals.

We embrace the concept of one-stop shopping and sharing resources and customer service centers or work force development centers.

I had the opportunity to visit an excellent local office in downtown Manhattan, Senator, a couple of years ago. And it is exciting what is happening around this country.

And we want to be the gateway, but as I am sure you understand, we cannot expect the local offices to do more and more without adequate administrative resources with which to do that.

The last item I would like to touch on is a broader contextual item, and that is the treatment of the Federal Unemployment Trust Fund. The Unemployment Trust Fund is paid for by employer premiums.

It is set up to administer the State-Federal system to handle extended benefit programs, and to provide loans to States when their State trust funds are drawn down. It has over the years become more and more a part of the unified budget agreement.

I am concerned because that report you refer to from 1935 set this trust fund up as a part of the Social Security Act. And it is every bit as important to the economic well being of some of our citizens as that act is.

Senator, it is time for this Congress to move to take that trust fund off budget and to treat it the way it is supposed to be treated.

Thank you for the opportunity to be here. And I would be happy to answer any questions.

[The prepared statement of Mr. Richardson appears in the appendix.]

The CHAIRMAN. I want to thank you for that last remark. We heard you.

I just so much agree with all the things that have been said here. I have really no questions, but I do want to make one point which is an issue about the Unemployment Compensation Advisory Council which, Mr. Blue, you raised.

This is analogous to that quadrennial Social Security Council. It does good work. The major changes in the system have come out of those councils.

We enacted legislation creating the council in November of 1991. And we still do not have one, but we have until, I am just now told, January of 1994 before it expires. So if we get to work right now, we have a year to report.

And I am going to ask Mr. Reich to get to work right now because the House and Senate have made appointments. But we just did not get them out of the last administration.

And if we have to extend the time, well, we can extend the time. But we will get that commission going. I am sure you all agree we ought to do it.

Yes.

Mr. CUNNINGHAM. Mr. Chairman, we talked to the Secretary. He is intending to get the commission up and running.

The CHAIRMAN. I had no doubts of that. Good for you Mr. Cunningham.

Senator Bradley, we have not heard from you this afternoon. We were hearing about New Jersey, but not from the Senator from New Jersey.

Senator BRADLEY. Thank you very much, Mr. Chairman.

I am not sure exactly what you have been hearing about New Jersey, but I assume that it is positive.

I would like to get each of your opinions of the New Jersey Workforce Partnership Act, which takes an over-funded trust fund and diverts some amount to retraining.

In this case, the trust fund balance is about \$2.3 billion. And it diverted about \$50 million to a training effort to take workers who are in firms that need help to become more competitive. It provides training for those workers on the job, or after losing a job, to help them with relocation to another firm.

It seems to me that if we are looking at a whole series of steps, a structural adjustment in our economy, that this kind of training need is going to become greater and greater.

My question to you really is, does this make sense to you? I know that there are many New Jersey workers who have been out of work a long time. They not only need extended benefits, but I think a lot of them clearly see the need for some additional training.

And if this program had been in effect prior to them losing their job, they might have been able to remain employed or make a less painful transition to a new job.

And the question really is, do you think that this is an appropriate program? And is there a possible Federal match if funds are used in this way?

Mr. BLUE. May I be first since I was first before?

The CHAIRMAN. Please. Yes.

Mr. BLUE. The over-funded Unemployment Compensation Trust Fund in New Jersey was a target, not only for using the money for training, but to pay for health care, as you probably know.

Senator BRADLEY. Yes. But I am asking you about the training.

Mr. BLUE. I understand. And I guess my comments would be just like I do not think it is appropriate to use unemployment funds for health care, I am a little bit uncertain about using the taxes which are used to be paid for benefits to be diverted and be used for some other program.

I am not suggesting that there shouldn't be money to do that, but I am suggesting that probably taking unemployment trust fund money to be paid for benefits and using it may be inappropriate.

Mr. CUNNINGHAM. I am not totally conversant with the New Jersey experience, but if what I understand about the New Jersey ex-

perience is, if they have actually cut down utilization of unemployment compensation, it would seem like a good investment.

But you have to remember, Senator, that there is 1.4 million people who have lost eligibility for the Federal extended benefits program.

So it seems to me at least conceptually that a \$23 million demonstration program, given a population of 1.4 million, may be a prudent way to go, but it sure is not going to resolve the problem for people who have exhausted benefits.

Mr. RICHARDSON. I am not empowered to talk about this from the perspective of the Interstate Conference of Employment Security Agencies. However, let me offer my opinions as Commissioner of the West Virginia Bureau of Employment Programs.

I believe that in the reemployment arena, we have to take a long hard look at what we are doing in this country. First of all, unemployment compensation is premised in most States on a work-search requirement.

I would submit to you that we need to look less to work search and more at retraining.

Senator BRADLEY. Precisely.

Mr. RICHARDSON. I think also that we have concocted very complex policy in the area of dislocated workers.

If you are trade dislocated, you are treated one way. If you are generally dislocated, it is another. If it is a defense dislocation, it is another. If it is endangered species, yet another. Clean air, another.

But we are looking at the cause instead of the effect. The effect for each of these people is the same. Their job is not coming back.

And the most responsible model has been the trade model where there is some type of a benefit, a stipend, an unemployment-type payment for a longer period of time than traditional unemployment benefits allow to help that person pay the mortgage and bring home the bacon.

At the same time, they are enrolled in retraining, reeducation, often 18 months or 2 years to become skilled again and move into the labor force.

We must step out of the box, get into a new paradigm, and begin thinking in this regard if we are going to respond to the kinds of employment problems that we are facing coming out of this recession, if we are coming out of this recession.

Senator BRADLEY. I thank you very much for that.

Do you believe that the unemployment compensation area is the place that we could actually look for more permanent retraining dollars?

Mr. RICHARDSON. I am not sure. New Jersey was a unique situation. We do not have that level of solvency with our trust fund to do something like that. And there are seven States currently borrowing under the Federal borrowing program.

I think that there needs to be a tie-in. And maybe what needs to happen is a recognition that you need to be receiving something a la unemployment compensation at the same time you are being retrained. And therein lies that match.

Senator BRADLEY. But, if you are a little leery, Mr. Blue, about using funds that are in the Unemployment Trust Fund, even one

that is vastly over-funded, would it make sense to you to increase very slightly the rate of FUTA tax so that you could build a retraining trust fund that could function in conjunction with unemployment compensation and give Departments of Labor in various States opportunities to anticipate in advance what might be a serious job loss and get workers retrained and relocated before they lose their job?

Mr. BLUE. Obviously, you need financing from someplace. I am not denying that, but I do think you do not use the unemployment tax system to do this.

And what happens is that the State enacts a special payroll tax to do the training and says to the employer community, it is not going to cost you anything because we are going to lower your unemployment tax rate the same amount that we are going to do the payroll tax, the new payroll tax that we are going to impose on you.

Well, the facts are within 3 or 4 years, the unemployment tax rate goes back up where it was before. And they got a payroll tax. They are playing games.

So my suggestion is, if we are going to do this, let's face it upfront. Let's tell people this is what it is for. And do not involve the unemployment system. And say, all right, we need money. And we need money from you. And here is what it is for.

And everybody decides what they are going to do based upon the real facts instead of doing these shenanigans that I think is going on in the State agencies—or the State—it is the legislatures, not the State agencies.

Mr. CUNNINGHAM. Just one point. If your point is using a UI tax to fund it, that is one thing. If you are using unemployment insurance eligibility as a criteria for who is served, then you have to remember that only one-third of the unemployed workers get UI eligible initially.

So you are leaving two-thirds of the workers out. So using the unemployment insurance system for identification and tax purposes, it probably is not going cover enough people that you want to serve. So it should be a more general program.

Senator BRADLEY. Right. So resources, yes, but eligibility, no.

Mr. CUNNINGHAM. I am institutionally not too sure that the unemployment insurance tax system should be used for the job apprenticeship training program.

My feeling is that you are really going to—a system that is already defective, you are basically going to put a critical mass of funds into it. To pile this new responsibility on UI system (retraining) is going to break UI down completely.

Senator BRADLEY. I do not want to take any more time, Mr. Chairman. But what about a system that is highly over-funded? As you say, there may be six or seven States that have this circumstance today.

Mr. CUNNINGHAM. Right. The funds should be for benefits.

Senator BRADLEY. If you made one of the requirements that you could not use the fund unless it was over-funded a certain amount, would you prefer that or would you prefer simply raising the rate, Mr. Cunningham?

Mr. CUNNINGHAM. I think as I—

Senator BRADLEY. Or none of the above. In which case, identify the source.

Mr. CUNNINGHAM. My own view, albeit it is not very—on this whole job retraining effort is a Pandora's box of programs out there.

And to add an unemployment insurance funded job identification and UI retraining program to all of the other programs seems to be a prescription for the disaster.

I think we would be better off to focus the unemployment insurance tax on eligibility and benefits which is what it is designed for, income replacement, and do the job retraining separately and have a funding source there.

And at least you can identify whether or not it is working or not. And that is our concern. The system is too complex to figure out where the—

Senator BRADLEY. Right. And consolidate it all into one system?

Mr. CUNNINGHAM. Right. And if you consolidate it into all one system, then the system is saying it is doing 25 things at once and it is doing 20 of them well, 5 of them not so well. And then, you lose track of it.

There should be identifiable programs, where they are, where the funding comes from. I think that is a better way and a value way, whether it works or not.

If you put it as part in the unemployment insurance system, part of it in the JTPA system, you lose sight of it.

Senator BRADLEY. Right. You mean, you would like to see, all of the various training programs consolidated into one program?

Mr. CUNNINGHAM. And not necessarily funded through a unemployment insurance tax.

Senator BRADLEY. No, no.

Mr. CUNNINGHAM. Yes.

Senator BRADLEY. But whatever.

Mr. RICHARDSON. I would be much more comfortable with the traditional role of the unemployment payment, the unemployment trust fund, being that indemnity benefit, but I think we most certainly need to look more closely at wrapping these retraining programs and reeducation programs more together in this country.

The CHAIRMAN. If I could volunteer, I think that the Unemployment Compensation Advisory Council needs to get to work.

Senator Packwood.

Senator PACKWOOD. No questions.

The CHAIRMAN. Senator Packwood and I were just commenting on what exceptionally good witnesses you have been. And Senator Bradley concurs. [Laughter.]

The CHAIRMAN. We really do thank you.

We will have one more hearing on this matter, at least one more. But we have learned a lot. Every 30 years or so, it does no harm to look at a program, does it?

Mr. RICHARDSON. Senator?

The CHAIRMAN. Sir.

Mr. RICHARDSON. Please try to give us more than a notice on March 6th if this is extended at the States.

The CHAIRMAN. What do you need? Tell me.

Mr. RICHARDSON. A week.

The CHAIRMAN. You need a week. So be it. [Laughter.]
You almost got your wish.

We thank our reporter. And we thank our audience.

[The prepared statements of Senator Rockefeller and Senator Hatch appear in the appendix.]

[Whereupon, the hearing was concluded at 3:42 p.m.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF WARREN G. BLUE

I am Warren Blue and I appear here today in behalf of the Employee Benefits and Payroll Taxes Task Force of the Council of State Chambers of Commerce. I am Senior Vice President and General Counsel of R.E. Harrington, Inc., Columbus, Ohio, a nationwide Third Party Administration firm representing many thousands of employers in all States.

We recognize that this legislation is on a fast track and is scheduled to provide another demonstration that "gridlock" is gone! Nevertheless, we do have several concerns we would like to put on the record with the hope that in the future, if not now, the Administration and the Congress will take what we would consider a more desirable approach to dealing with long term unemployment.

UI IS "INSURANCE"—NOT "WELFARE"

A basic question which needs to be faced is—HOW MANY TIMES CAN UNEMPLOYMENT COMPENSATION BE EXTENDED AND MAINTAIN ITS STATUS AS SOCIAL "INSURANCE" AND NOT BECOME WELFARE?

Unemployment Insurance is supposed to provide benefits based upon the claimant's prior earnings. It was designed to deal with short term unemployment. The regular UI program usually provides no more than twenty-six weeks of regular benefits with thirteen weeks of extended benefits. These benefits are properly financed by experience rated employer payroll taxes. However, when the inability to find work goes beyond this duration, it should no longer be considered the sole responsibility of the employer, and the financing of the benefits should be the obligation of society in general.

UI IS NOT DESIGNED TO DEAL WITH LONG TERM UNEMPLOYMENT

Much of the criticism of the UI system in recent years has resulted from expecting the program to do what it was not designed to do—that is deal with long term unemployment.

We believe the UI system does an excellent job of meeting its original goals. Rather than undermine what we view as a basically sound-system by requiring it to do things it is not well equipped to do, other means of dealing with long term unemployment need to be considered.

Clearly education, training and retraining are an important part of any long term program to aid the unemployed. Profiling claimants to early determine their prospects for re-employment—or their need for help beyond a weekly benefit check—would be a step in the right direction.

UI TAXES SHOULD BE USED FOR BENEFITS AND ADMINISTRATION!

However, training, and retraining programs for the unemployed should not be financed out of State or Federal UI payroll taxes. These are meant, and should be used, to provide adequate regular and extended benefits for those persons who have demonstrated an attachment to the labor force and become unemployed through no fault of their own.

Employers have provided, and will continue to provide, training for their employees. Much of the time employer-provided training is necessary to make up for the deficiencies in public education. To expect the employer to finance training for the unemployed through UI taxes is not in the best interests of the employer or the employee.

UI taxes diverted for purposes other than benefits and administration means that there is less money available for paying adequate benefits!

CONCLUSION

We appreciate this opportunity to present our views on the extension of benefits to the unemployed.

We would welcome the opportunity to work with the Administration and the Congress to develop programs to deal with long term unemployment which do not undermine the Unemployment Insurance System by expecting it to do things it is not designed, nor funded, to do.

PREPARED STATEMENT OF SENATOR JOHN H. CHAFEE

Thank you Mr. Chairman. As we all know, the recent recession was devastating, particularly for New England and my home state of Rhode Island. Rhode Island's latest total unemployment rate was 7.8 percent—.7 percent higher than the nation's. At one point, Rhode Island's rate was 9.8 percent. Although I am relieved to see that it has come down, clearly, there still remains a serious problem.

Last year, Rhode Island paid out \$198 million under the permanent unemployment program—\$30 million more than in 1990. An additional \$131 million was disbursed to over forty-eight thousand claimants under the emergency benefits program.

My office receives letters every day from individuals who are well qualified, who want to work, but who cannot find a job. These people have worked hard, they have families to support, and they deserve our help in their time of need.

I am pleased that we are here today to take up the case the thousands in my state and around the country who, through no fault of their own, simply cannot find work. I must say, however, that I am concerned about extending the program without a financing mechanism. Nothing is ever cheap around here, and this proposal, like many critical programs, is costly—\$5.8 billion to be exact. On other occasions, we have been able to find offsetting revenues for these benefits, and I am hopeful that we can do that again.

Thank you Mr. Chairman.

PREPARED STATEMENT OF WILLIAM J. CUNNINGHAM

Mr. Chairman, the AFL-CIO appreciates this opportunity to testify in support of a continuation of the Extended Unemployment Compensation program through to the end of the current fiscal year.

Unemployment is still very high by any standards. There are 9 million people unemployed according to the official Bureau of Labor Statistics reports. But there are another 1 million "discouraged workers" who cannot find jobs and have dropped out of the labor force, and there are another 6 million workers who want full-time jobs and full-time paychecks but can find only part-time work.

In fact, the labor force now is smaller than it was three months ago. If we had normal labor force growth—instead of the disguised unemployment of discouraged workers giving up a fruitless search for non-existent jobs—we would have an unemployment rate up over 8 percent. In fact, with 16 million workers suffering total or partial unemployment rate, one out of every eight workers is jobless or suffering reduced income loss.

Unemployment compensation helps support jobless workers and their families—but it also serves the business community by maintaining aggregate consumer buying power which supports sales, production, and income for business. Unemployment compensation payments stabilize and stimulate the American economy.

Unfortunately, only half of the workers who are officially unemployed are getting any kind of unemployment compensation. About 3.5 million jobless workers are getting regular unemployment insurance (UI) benefits. But another 1.5 million long-term jobless workers depend on the current Extended Unemployment Compensation (EUC) program which is now scheduled to expire on March 6, 1993.

The extent of this problem can be seen by the increase of the revenue estimate for this proposal. The first estimate was \$3.1 billion and the most recent estimate is \$5.6 billion. What this illustrates is that long-term unemployment will continue at high and unacceptable rates throughout 1993.

The regular state Extended Benefit (EB) programs remain ineffective to meet the income support needs of long-term unemployed workers. Last year Congress enacted legislation that provided states the option to use the TUR (Total Unemployment

Rate) as opposed to the IUR (Insured Unemployment Rate) as the basis for the regular EB program. However, since the regular EB program is 50% state financed, budget pressures precluded use of this option. No state, to our knowledge, is considering this needed change. The regular EB program does not work. Even now during this prolonged job recession only Puerto Rico would be triggered on the regular EB program. This strengthens our view that the TUR should be the only trigger for the regular EB program.

In 1991 there were 3.5 million jobless workers who exhausted their regular state UI benefits. In 1992 this total dropped but it was still very high, about 2.5 million workers. On top of these workers, another 1.4 million have exhausted their emergency extended benefits.

Some argue that an extended UI program encourages workers not to look for jobs. A 1990 study of exhaustees by Mathematica found very little if any work disincentive effects for receipt of UI payments. The report found that 60 percent of UI exhaustees were still unemployed 10 weeks after exhausting their UI benefits.

A summary of the Mathematica report in the House Ways and Means Committee's 1992 Green Book notes that:

"The work disincentive effect did not appear to be a dominating factor in explaining the exhaustion of UI benefits. Most workers who exhausted their UI benefits were still unemployed more than a month after receiving their final UI payment, and a majority were still unemployed two months after receiving their final UI payment. Moreover, workers who found jobs after exhausting their UI benefits were generally receiving lower wages than on their pre-UI jobs. Neither result is consistent with strong disincentive effects."

This study combined with the fact that UI benefits are less than 40% of prior wages for workers argues strongly that workers are not abusing UI. The AFL-CIO strongly urges you to continue the EUC program through October 1, the end of the 1993 fiscal year, as a minimum necessary step to meet the income support needs of long-term jobless workers who have exhausted their regular state UI benefits.

In fact, it is clear that unemployment will remain high and persistent beyond October 1. The Congressional Budget Office estimates unemployment will average 7.1 percent in 1993 and 6.6 percent in 1994. The latest unemployment report from the Bureau of Labor Statistics shows that some 2 million workers have now been jobless for 27 weeks or more.

We would like to see the EUC program continued until at least 60 days after the national unemployment rate, based on a three-month moving average, falls below 6 percent. This would prevent triggering off EUC too soon.

We support the Clinton Administration's proposal to link EUC payments to job-counseling, job-search, and job training services for the workers receiving EUC benefits. We approve of this effort, but we urge the need for additional resources to make these goals effective; The resources are not now available.

The AFL-CIO has long called for comprehensive reform of the present federal-state unemployment insurance system. In the long run, the system should be federalized, with appropriate worker protections, so that it will operate with consistency and fairness.

Given the changes in the work force, the frequent job dislocation, it is obvious that the UC system, designed for the most part in the 1935 Social Security Act, needs to be overhauled.

Federal minimum benefit and eligibility standards are desperately needed to better protect jobless workers and their families.

COVERAGE

Currently 50% of unemployed workers are receiving benefits. Yet in the recession year of 1989 only 33% received benefits and 1990 37%. In 1991-92 there were almost 41% and 50% because of the EUC bill.

By contrast, during the 1975 recession 75 percent of the unemployed were getting UI benefits. Many of these workers have years of work experience but are denied benefits because of restrictive eligibility requirements.

A variety of sophisticated econometric studies will give you various reasons for this decline in the proportion of jobless workers getting UI payments. Changes in the geographic, industrial, and demographic make-up of the work force are among these reasons. But one of the most important reasons is that too many state legislators and too many state UI administrators adopt the employers' view that it is more important to keep UI taxes low and UI eligibility restrictions high rather than to help unemployed workers and their families with adequate UI payments.

UI BENEFIT LEVELS

Even those jobless workers lucky enough to get UI benefits do not do very well. They end up getting an average of little more than one-third of their previous earnings. That is certainly not substantial replacement of wage income and it is far less than the 50% average recommended by the National Commission.

The average weekly UI benefit was \$169 a week in 1991. This is only 37 percent of the \$466 average weekly wage in covered employment.

As you will note on the table which I have attached to my testimony, there is a wide range of maximum and average weekly UI benefits among the various states. But in all states, the average weekly benefit is far below the average weekly wage in covered employment. There's simply not enough replacement of workers' wage income to maintain a decent standard of living. We believe benefits should be at least 50 percent of a worker's previous wage, up to a maximum of 67 percent of the state's average weekly wage.

Our unemployment system is a federal/state system. State legislatures decide how big UI benefits will be, how long benefits are paid, who is eligible, and how much employers will pay in state UI tax. It should be no surprise, therefore, that employers are very successful in keeping state UI eligibility standards very restrictive, so that few people will qualify for UI benefits. And it is no surprise that employers successfully press for low UI taxes, low UI benefits and short duration of UI payments.

EXTENDED BENEFITS

While we support an extension of EUC, the UI system does not effectively cope with long-term unemployment. Almost one-third of those who do get UI payments exhaust their benefits before they find a job. Unrealistic and unworkable triggers for extended benefits have the effect of denying benefits to most long-term unemployed workers. As mentioned before, this present formula should be changed.

The existing Insured Unemployment Rate (IUR) trigger for activating extended unemployment compensation benefits is unrealistic and unworkable. No states now are triggered "on" for extended benefits. The effect of the present extended benefits trigger is to deny benefits to most long-term unemployed workers.

The IUR is far below the Total Unemployment Rate (TUR); and, therefore, the IUR is a poor indicator of the level of unemployment. Furthermore, the IUR is excessively and wrongly stable when the TUR goes up. The IUR simply fails to reflect current conditions of unemployment.

If triggers must be used to determine when a state can activate extended unemployment benefits, then the Total Unemployment Rate is the obvious and logical measure.

STATE SOLVENCY

Unfortunately state trust fund accounts from which UI benefits are paid, are in terrible shape to deal with recession and high unemployment. The General Accounting Office has detailed for this Subcommittee the failure of many states to accumulate sufficient reserves during the years of economic growth to pay UI benefits during recession years. The GAO noted that a severe recession in 1991 will force 22 states to borrow more than \$17 billion to keep up their UI benefit payments.

The May 1990 GAO report warned that the probable result of state UI trust fund insolvency in 1991 would be (1) intensified action by the states to make it more difficult for workers to qualify for UI benefits; (2) continued state action to restrict the size and duration of UI benefits; and (3) perhaps even higher state UI taxes on employers.

All these actions in time of recession would be contrary to the two key purposes of the unemployment systems: First, to provide cash benefits and income support to unemployed workers; and second, to help stabilize the economy during recession by helping to maintain consumer buying power.

For many states this problem will be very serious since they may not be able to repay the loan during the current fiscal year and will be required to pay interest on the outstanding debt.

STATE UNEMPLOYMENT COMPENSATION & EMPLOYMENT SERVICES

Yet another UI problem relates to appropriations and inadequate funding provided by the federal government for administration of state unemployment insurance and employment services. The tragic effect of this under-funding for administration at the state level is a reduction of services to jobless workers at a time when they are most in need.

Administrative funding shortfalls and instability in local offices serving unemployed workers have grown in recent years. Offices are closed, hours of service are shortened, and experienced UI staff are laid off. This makes it increasingly difficult for jobless workers to collect the UI benefits to which they are entitled and to receive the counseling and assistance to help them become reemployed.

I recognize that administrative funding for the UI system is not a direct problem before this Subcommittee, but we urge the Congress to take action necessary to keep the system operating effectively in getting UI payments to jobless workers in time of personal and family crisis.

We recognize that major reform may have to wait on recommendations from the new Advisory Commission on Unemployment Compensation which Congress called for in extending EUC in 1992. We expect that the Clinton Administration will move promptly to complete this Council and will give careful attention to its recommendation.

Mr. Chairman, we appreciate your attention and the interest of this Subcommittee in meeting the income support needs of jobless workers and their families. Your action in extending the EUC program will help people and will help stabilize and stimulate the American economy. The AFL-CIO is ready to help you in any way we can in this effort and future efforts to reform the UI system.

PREPARED STATEMENT OF CHARLES E. GRASSLEY

Mr. Chairman: I appreciate the holding of today's hearing on further extended unemployment benefits. In the last Congress, the Congress and President Bush reached a number of bipartisan agreements that brought relief to hundreds of thousands of unemployed Americans.

There was no question that the President and most of Congress supported extended benefits. The only question or disagreement revolved around whether the program was going to be paid for, or was the deficit just going to be increased. Congress finally listened to the President and agreed to pay for the program rather than further increasing the deficit.

Unfortunately, hard times have continued for many, and people have continued to struggle. During consideration of earlier UI extensions, I made the point that there were a number of underlying problems with the current law that were preventing people from getting help and these problems needed to be looked into. These problems continue today.

As has been mentioned, there are major conflicts between State and Federal law regarding work search, qualifying base periods, job placement requirements and others. These problems have precluded thousands of exhautees from getting help. And, of course, there are still people out of work who lost their jobs prior to march 1991 who weren't helped in the last few bills.

Mr. Chairman, I agree there should be another extension of unemployment benefits. But they should be paid for. If the president is truly serious about deficit reduction, then he should start right now. Unfortunately, this president has already gained the unseemly reputation of talking the good talk, and immediately turning around and doing the opposite of what he said he would do.

Deficit spending for unemployment benefits is just the latest example of talking out of both sides of one's mouth. and we thought the age of smoke and mirrors was over.

I thank all of the witnesses for appearing today and I look forward to their testimony.

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, I am pleased to see the Committee meeting today to hear testimony from secretary Reich about the nation's unemployment situation. I welcome the Secretary to the Committee and I look forward to hearing his comments.

Mr. Chairman, as much as I recognize the plight of those of our citizens who are struggling without a job, and would like to see unemployment benefits extended, I am deeply concerned about the emergency declaration contained in the legislation before us today. This will only add to the bulging deficit and hurt job creation, not help it.

President Clinton has promised dramatic job creation. I personally have a difficult time seeing how a plan to stimulate the economy and solve the deficit through higher taxes and spending is going to help create more jobs. This is true whether we talk about an income tax increase on the so-called wealthy or increasing taxes on

energy. In either case, we are removing the means of jobs expansion from the private sector.

Mr. Chairman, I am not here to trash the President's program. But I do think it important to put the unemployment benefits extension issue in the context of his overall plan to stimulate the economy. Some of his proposals are going to work to create jobs, however the incentives and resources they provide are not nearly enough to compensate for the removal of resources by increased taxes or additions to the deficit.

Mr. Chairman, I empathize with the plight of the unemployed. However, I hardly think we can call this an emergency and add to the deficit when the economy is looking stronger and unemployment is going down.

PREPARED STATEMENT OF SECRETARY ROBERT B. REICH

Chairman Moynihan, Senator Packwood, Members of the Committee:

I am pleased to be here this morning to present President Clinton's proposal for legislation to reauthorize the Emergency Unemployment Compensation program. The cause is urgent. Less than three weeks from today, nearly 1.8 million jobless Americans risk losing their shield against financial despair, in the absence of rapid action to preserve that shield. Extending Emergency Unemployment Compensation until October 2 of this year will provide those Americans with breathing room while they seek new employment. This package also contains a unique new twist. It includes an initiative to identify dislocated workers so that we can help them find new jobs in less time. It aims to shorten the duration of joblessness at the same time as it softens unemployment's financial impact.

The Emergency Unemployment Compensation program provides workers who have exhausted their regular state unemployment benefits with up to 26 weeks of additional emergency benefits in states with high unemployment. Workers in all other states receive 20 weeks of emergency benefits.

The need for continuation of the Emergency Unemployment Compensation program can hardly be disputed. Although there is evidence that economic recovery is at long last underway, it is clear that serious problems still exist on the employment front. The facts speak for themselves:

- The total unemployment rate, which was 6.9% when the Emergency Unemployment Compensation program was first enacted, has exceeded 7% for fourteen consecutive months.
- The January unemployment rate dropped slightly, but was still a disappointing 7.1%, and the pace of job growth is lagging well behind other economic recoveries.
- Because recessions are measured by GNP growth, the economy today is not considered to be in a recession. However, if recessions were measured by the condition of the labor market, you would have to say that we are still in a recession. In fact, the labor market today has deteriorated from the conditions at the trough of the official 1991 recession. For example:

- o The total unemployment rate is higher now (7.1%) than at the supposed trough of the recession in 1991 (6.9%);

- o The rate for persons exhausting regular benefits is 20 percent higher and the average duration of unemployment benefit collection is more than 15 percent higher now than it was during the trough of the official recession; and

- o The number of discouraged workers, those still unemployed but who have stopped actively looking for work due to the lack of job opportunities, is 100,000 higher now than at the worst point of that recession.

- Major companies, such as IBM, Sears, and GM have recently announced plans to lay off thousands of employees. Hundreds of thousands of other workers have already been laid off since the beginning of the 1991 recession.
- Unlike past economic downturns, many of those who lost their jobs in the recession will never be rehired by their former employer. These dislocated workers must find for new employment in different industries. In the past four recessions, 44% of unemployed workers were on temporary layoffs. In this recession, only 14 % of unemployed workers were expected to be recalled by their previous employer. The struggle of the so-called "structurally unemployed" is made even more difficult by the fact the number of jobs in traditional, high-volume industries is declining due to technological shifts and foreign competition.
- About 3.5 million people in the U.S. collect unemployment benefits. About 1.5 million people are currently receiving benefits under the Emergency Unemployment Compensation program. The rate at which unemployed workers are exhausting their regular benefits is comparable to the exhaustion rates experienced at the depths of the 1982-83 recession. It is projected that an average of almost 250,000-300,000 unemployed workers will exhaust their benefits under state law each month for the next six months.

Even though the economy appears to be improving, there are still millions of jobless Americans who want to work to support their families but can't find jobs. Many of these people are suffering. Unemployment benefits often are the only source of sustenance and hope for displaced workers and their families. As a nation, we have a moral obligation, as well as an economic interest, to help these families stay afloat while they attempt to find their places in the economy.

Under the Administration's proposal, no new claimants would be eligible for emergency benefits after October 2, 1993. Those in the program prior to that date would be eligible for benefits until January 15, 1994. The net cost of this extension of the Emergency Unemployment Compensation program is expected to be \$3.2 billion in FY 1993 and \$2.4 billion in FY 1994. To put these numbers in context, the Emergency Unemployment Compensation program has already paid out \$14.6 billion in benefits to almost 5 million claimants.

The Administration's proposal designates expenditures for continuing the Emergency Unemployment Compensation program as emergency spending exempt from the pay-as-you-go requirements of the Budget Enforcement Act. This designation is clearly appropriate. The cost of these benefits has been factored into the long-term deficit reduction package the President announced last night.

We all know that many dislocated workers need more than emergency unemployment benefits to get them back on their feet. They may need counseling, job search assistance, and retraining to help them find new and better jobs in less time.

That is why our proposal includes a new twist -- a program to encourage the states to profile and provide job services to dislocated workers. Under this plan, within five weeks after the initial claim for benefits is filed, states would identify workers who appear to be permanently displaced. Those who fall within this category would be referred to appropriate local services, which may include counseling on how to search for jobs, prepare resumes, and interview for job openings, and to appropriate job training programs sponsored by the Department of Labor.

The goal of this program is not just to find jobs for displaced workers, but to help them find good jobs as well -- that is, high-paying and stable jobs. The plan is based on successful demonstration programs in New Jersey and other states. This initiative puts people first by empowering dislocated workers to help themselves regain employment and by giving them the opportunity to obtain the skills demanded by the modern workplace.

The Administration is requesting \$23 million for the establishment of a profiling and referral system for FY 1993 and FY 1994. These outlays will be offset by savings in benefits and increased revenues that will result from quicker re-employment of dislocated workers, as well as placement in better, more stable jobs. In the New Jersey demonstration, job search assistance alone was estimated to lower government costs by \$134 per participant.

The Administration's proposal merits quick passage by Congress. It combines compassion with a healthy dose of common sense. It not only provides dislocated workers with extended financial support, but also offers real assistance in putting people back to work in jobs that match their skills and interests. This innovative proposal is the opening salvo in our full-scale effort to reduce structural unemployment through a comprehensive, coherent, and effective worker adjustment program. I look forward to working with the members of this Committee in developing and implementing this program. In the meantime, I urge Congress to enact our proposal without delay.

This concludes my prepared remarks. I will be pleased to answer any questions you may have. Thank you.

RESPONSES OF SECRETARY REICH TO QUESTIONS SUBMITTED BY
SENATOR MALCOM WALLOP

Question: Would you provide statistics on the current average length of benefits for unemployed workers?

Answer: The average length of benefits under regular State UI programs was 16.2 weeks for the twelve months ending January 1993. Claimants in the Emergency Unemployment Compensation (EUC) program have averaged an estimated 17-20 weeks of benefits since the beginning of the program.

Question: Would you provide statistics on the percent of unemployed workers who exhaust regular (26 weeks) benefits without obtaining new employment? How many exhaust the extended benefits without obtaining new employment?

Answer: For the twelve months ending January 1993, 39.0% of regular UI claimants exhausted their regular UI benefits. For EUC claimants, the exhaustion rate since the beginning of the program is an estimated 50-60%.

Question: Would you provide statistics on how many people go off of unemployment because of reemployment and how long it takes for this group to go off of unemployment insurance?

Answer: No data is available on the incidence of reemployment of UI claimants. However, it is estimated that claimants who do not exhaust their regular UI benefits receive, on average, 11-12 weeks of benefits, not necessarily consecutively.

PREPARED STATEMENT OF ANDREW RICHARDSON

Mr. Chairman and members of the Committee, my name is Andy Richardson. I am Director of the West Virginia Department of Employment Programs and President-elect of the Interstate Conference of Employment Security Agencies (ICESA). ICESA is the organization of state officials who administer unemployment compensation laws, the public employment service, labor market information programs, and in many states, job training programs. Thank you for the opportunity to address issues related to extension of the Emergency Unemployment Compensation Program.

EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION PROGRAM

Since late November 1991, when the Emergency Unemployment Compensation (EUC) Act became law, state employment security agencies have made approximately 90 million EUC payments to more than 5 million unemployed workers who have already received all of the regular state benefits to which they were entitled. My colleagues around the country and I are proud of the work of our staff in implementing EUC. In spite of the complicated nature of the program and the short lead-time to write computer programs, develop procedures and forms, and train staff, the first checks were out promptly following enactment.

As you consider extending the Emergency Unemployment Compensation (EUC) program, we urge that you make any extension as simple as possible. The current program is already complicated. The provision providing that individuals may choose to claim EUC rather than establish a new regular state benefits claim has been especially challenging to administer. It has been difficult to determine and ex-

plain the options available to each individual, especially those who have worked in more than one state and those who are filing in a state other than the one in which a previous claim (on which their potential EUC eligibility is based) was filed. I would like to submit for the record, a series of questions and answers which was provided to states by the Department of Labor to illustrate the complexity of this provision.

Even if this legislation moves expeditiously, there will be little lead time to implement significant changes to the program. In order to prevent any disruption in EUC claims processing, we urge you to consider the administrative implications of any proposed changes to the structure of the program.

ICESA has testified before this Committee on a number of occasions supporting repeal of the federal terms and conditions of eligibility for the permanent federal-state extended benefits program which have also been required for eligibility for EUC. These terms and conditions are scheduled to be suspended, beginning March 7, 1993, for two years with respect to the extended benefits program. We urge you to ensure that the suspension also applies to any extension of EUC.

FEDERAL-STATE EXTENDED UNEMPLOYMENT COMPENSATION PROGRAM

During the recent period of high unemployment, Emergency Unemployment Compensation has, in practice, replaced the permanently authorized Extended Benefits (EB) program which is financed jointly by the states and the federal government. Legislation enacted last year provides each state the option of establishing new triggers for extended benefits, effective March 7, 1993, which are based on the three month moving average total unemployment rate. As you know, no state has yet enacted legislation to establish those triggers.

In FY 1992, states collected \$17.6 billion in state unemployment taxes and paid \$25.6 billion in benefits, drawing down net reserves. As the economy recovers, higher state unemployment tax rates in most states as well as increased employment will bring in additional revenues to rebuild reserves. This is precisely how the unemployment compensation program is designed to work against the economic cycle. However, a period when unemployment taxes are going up to rebuild reserves is a difficult time for states to consider taking on the increased financial obligations which the optional triggers would require.

ICESA supports an increase in the federal share of EB. Since the federal government has the predominant role in determining the extent to which extended benefits are available, it seems fair that the federal government should bear the primary financial responsibility.

IDENTIFYING DISLOCATED WORKERS

The proposed extension of EUC makes additional funds available to identify, through computer based profiling, those unemployed workers who are not likely to return to their previous jobs or occupations. Most states make efforts to identify these individuals already, but would welcome federal assistance to improve current techniques.

Research has shown that early intervention is the key to success in helping dislocated workers adjust to a changing economy. Identifying dislocated workers is only the first step and one that could raise expectations that cannot be fulfilled unless additional resources are made available for reemployment assistance.

In real terms—staff levels and purchasing power—funding for the system of public employment offices, through which unemployment benefits are paid, has been cut in half since 1982. In 1980 the ratio of employment service staff to the civilian labor force was about 1:3,600; today it is about 1:7,500. Many offices no longer have staff to do skills assessment or counseling, the type of services that dislocated workers are most likely to need. Unless resources are made available to beef up these services, a new program to identify dislocated workers will offer them only an empty promise.

Since amendments to the Wagner-Peyser Act in 1982, states have been given much less money but a great deal of flexibility in how employment services are provided. Recognizing that it is often difficult for unemployed workers to learn about the various public and private employment and training services available, states have been moving to link with other state agencies to provide the best service possible within their funding constraints. In many states, employment services and unemployment insurance are located in "community service centers" or "work force development centers" along with other labor and social welfare services. We believe that the employment service should be the entry point—the gateway—to a variety of employment, training, and other work force development services.

UNEMPLOYMENT TRUST FUND

Mr. Chairman, I would like to take this opportunity to call your attention to a matter which is of critical importance to the workers and businesses of this country: the Unemployment Trust Fund and the treatment of that trust fund in the federal budget.

During the debate over whether and how to "pay for" the first emergency unemployment benefits bill, it became clear that federal budgetary accounting for the Unemployment Trust Fund is inconsistent with its purpose: to accumulate reserves in good times and pay those out during periods of economic distress. Ultimately, new revenues were found to offset the cost of the benefits, even though about \$8 billion in payroll taxes had accumulated in the trust fund for the purpose of paying extended benefits during recessions.

This perverse budgetary treatment has restricted badly needed administrative funding for employment and unemployment programs as well. A laborious process to obtain supplemental funding was necessary in the early months of the recession, when lines stretched out the doors of local employment offices in many states. Although emergency funds were finally appropriated, it was a struggle to obtain those funds, even though more than sufficient dollars were available in the Unemployment Trust Fund in an account maintained for that specific purpose.

The federal unemployment tax is levied to finance administration, extended benefits, and loans to states with depleted benefit payment accounts. Funds for these purposes should be accessible when and at the levels needed. Decisions about changes to the structure of the unemployment compensation program or its financing should be made on their merits, not to reduce the general fund deficit or as an offset for other federal spending.

We urge you to take steps immediately to reform the federal budget treatment of the Unemployment Trust Fund.

CONCLUSION

Thank you for the invitation to present our views. I would be pleased to answer any questions you may have.

Attachment.

U. S. Department of Labor Employment and Training Administration Washington, D.C. 20210	CLASSIFICATION UI/EUC
	CORRESPONDENCE SYMBOL TEUMC
	DATE January 5, 1993

DIRECTIVE : UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 9-92, Change 5

TO : ALL STATE EMPLOYMENT SECURITY AGENCIES

FROM : *Barbara Ann Farmer*
BARBARA ANN FARMER
Administrator
for Regional Management

SUBJECT : Emergency Unemployment Compensation (EUC) Act of 1991, as Amended - Questions and Answers

1. Purpose. To respond to questions raised by States and Regional Offices regarding implementation of Public Law 102-318.
2. References. The EUC Act of 1991, Public Law 102-164, as amended; GAL No. 4-92 and Changes 1-4 as consolidated in GAL 12-92; UIPL No. 9-92 and Changes 1-4; the Federal-State Extended Unemployment Compensation Act of 1970, as amended; 20 CFR Part 615; 20 CFR Part 616; ET Handbook 392; ET Handbook 399; ET Handbook 401; Section 5100, Part V, Employment Security Manual and UIPL No. 6-92.
3. Background. Many questions have been received from States about options available to claimants under Public Law 102-318. This change to the program letter provides to all States answers that have been given to individual State questions.
4. Action Required. State Administrators are requested to make a copy of this UIPL available to all appropriate staff.
5. Inquiries. Questions regarding this UIPL should be directed to the respective Regional Office.
6. Attachment. Questions and Answers for Clarification of P.L. 102-318

RESCISSIONS None	EXPIRATION DATE December 31, 1994
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Emergency Unemployment Compensation Act of 1991
Questions & Answers for Clarification of P.L. 102-318EUC Monetary Entitlement

The applicable level of EUC entitlement for individuals who postpone establishing a new benefit year and the level for those who defer rights to regular benefits to elect a claim for EUC are determined differently. Section 102(b)(2)(B) of the UC Amendments of 1992 (P.L. 102-318) provide that an individual who defers regular benefits is to receive EUC in the same manner as if he/she had not been entitled to regular benefits. This means that the claimant's entitlement must represent the same level of entitlement that applied to other EUC claims filed during the period of time that the claimant was not allowed to file for EUC because of regular benefit entitlement.

On the other hand, Section 102(a), which added paragraph (f) to Section 101 of the EUC Act of 1991, simply allows individuals who were not in benefit status or whose rights to EUC were not affected by their rights to regular benefits subsequent to the exhaustion of the prior claim or the end of the prior benefit year to have the same option to elect an EUC claim prior to establishing a subsequent benefit year.

The requirement that an individual with an existing second benefit year have a remaining regular benefit balance acknowledges that some claimants affected by the definition of an "exhaustee" would not be covered by the amendment. However, it was considered to be the appropriate solution in maintaining the concept of the "applicable benefit year."

What is important to be remembered, in either case, is that the claimant's EUC entitlement based on the prior benefit year is determined minus any EUC previously paid on the basis of that prior benefit year.

The following questions pertain to the determination of EUC entitlement for individuals exercising election to postpone establishing a new benefit year (Section 102(a) of P.L. 102-318).

1. Question. If an individual elects to postpone establishing a new benefit year to file an EUC claim, based on a prior benefit year where benefits were exhausted prior to July 3, 1992, is the level of EUC entitlement determined on the basis of what the individual would have been entitled to had he/she filed an EUC claim upon exhaustion of the prior claim?

Answer. No. EUC claims filed under the provisions of Section 102(a) of P.L. 102-318 are determined at the level applicable to EUC claims at the time of filing, without regard to whether or not the claimant could have filed an EUC claim or a regular claim upon exhaustion. Since no claim was filed at that time, no entitlement accrues under the provisions of Section 102(b)(2)(B) of P.L. 102-318.

Note: This is a different situation from that addressed in Question 21, page 8 of Change 4. In that case, the claimant had filed a regular claim at the time of the benefit year ending and was filing for EUC under the provisions of Section 102(b) 2 (B) of P.L. 102-318. The same answer applies when there was an exhaustion and the claimant filed a regular claim.

2. Question. Claimant has a prior "applicable benefit year" for EUC purposes. The claimant did not exhaust regular entitlement and returned to work prior to the benefit year ending date. The claimant now elects to postpone establishing a new benefit year to file for EUC. What level of entitlement applies?

Answer. The level applicable at the time of the election. The claimant has not been denied EUC because he/she was not an "exhaustee".

3. Question. The claimant has a prior benefit year (ending between March 1, 1991 to date) and has not previously filed an EUC claim during the EUC period (11/17/91 to date). When this claimant elects to postpone establishing a new benefit year to file for EUC based on the prior benefit year, what level of entitlement applies?

Answer. The level applicable to EUC claims filed at the time of the election. This claimant has not been denied an EUC claim because of the definition of an "exhaustee".

The following questions pertain to the determination of EUC entitlement for individuals exercising election to defer rights to regular benefits on an existing benefit year. (Section 102(b)(2)(B) of P.L. 102-318.)

1. Question. If an individual elects to defer regular benefits on a current claim to file a new EUC claim based on a prior benefit year, is the level of EUC entitlement based on what the individual would have been entitled to had he/she filed an EUC claim at the time of the effective date of the current benefit year?

Answer. In the case of an individual who was required to establish a benefit year for regular benefits because he/she was not considered an "exhaustee" for EUC purposes, the applicable EUC benefit level is the greater of the level payable by the State on the effective date of the regular claim, or thereafter during periods that he/she was required to file for regular benefits, or at the time of the election.

2. Question. The claimant was previously issued an EUC determination with an entitlement of 26 times the WBA and was in active benefit status with an EUC balance at the benefit year ending date, at which time a new benefit year was established. During the time the claimant was receiving regular benefits, the maximum level of EUC payable in the State increased to 33 weeks. What level of entitlement applies when this claimant defers regular benefits to receive EUC?

Answer. Thirty-three (33) weeks. During the period that the applicable level for EUC was 33 weeks, the claimant was in active benefit status and prevented from filing an EUC claim by the definition of an "exhaustee". Therefore, the claimant's entitlement is redetermined to the higher level minus EUC previously paid.

3. Question. The claimant has a remaining balance on an EUC claim based on the prior benefit year and elects to defer regular benefits to file for EUC. What level of entitlement applies to this claimant?

Answer. The greater of the level applicable on the effective date of the prior EUC determination, the level applicable in the State for any week during which the claimant was in active claim status and not allowed to file for EUC because of regular entitlement or the level currently applicable to the State. The claimant's entitlement is redetermined to the higher level, minus any EUC previously paid.

4. Question. Prior to EUC exhaustion, the second benefit year, on which the claimant had deferred regular benefit rights in order to file for EUC based on a prior benefit year, ends and the claimant has no potential regular entitlement for a new benefit year. Is the claimant allowed to continue to receive EUC based on the prior benefit year or is the "applicable benefit year" for EUC the second benefit year? Is there a difference if the claimant has rights to a new benefit year to postpone?

Answer. When the second benefit year ends, the claimant no longer has regular benefit rights to defer under the provisions of Section 102(b)(2)(B) of P.L. 102-318. The claimant's rights to postpone a new benefit year, under the provisions of Section 102(a) of P.L. 102-318, provide for EUC entitlement based on the prior benefit year. Therefore, in either case, EUC entitlement is based on the "applicable benefit year" as defined in 20 CFR 615.

Please Note: This means that in some cases the claimant will have no further EUC entitlement if during the base period of the second benefit year the claimant's earnings do not meet the "earnings test". When a claimant is entitled to EUC based on the second benefit year, that determination does not take into consideration EUC benefits previously paid based on the prior benefit year.

5. Question. A claimant has deferred regular benefit rights on a second benefit year to receive EUC based on a prior benefit year and the second benefit year ends prior to EUC exhaustion. The claimant has potential regular entitlement for a new benefit year. If the claimant elects to postpone regular entitlement, is the claimant allowed to continue to receive EUC based on the first benefit year?

Answer. No. The claimant's entitlement to EUC based on the first "prior" benefit year ceases with the end

of the benefit year of the claim on which regular benefits were deferred. When the second benefit year ends, the provisions of Section 102(a) of P.L. 102-318 apply with respect to the claimant's options. Therefore, when the claimant postpones establishing a new benefit year, EUC is payable based on the entitlement of the most recent "prior benefit year" without regard to any EUC previously paid.

The following questions pertain to individuals who were ineligible for EUC benefits prior to July 3, 1992, for failure to satisfy the base period "earnings test."

1. Question. When a claimant who was ineligible for EUC prior to July 3, 1992, because he/she failed to meet the base period earnings test, elects to postpone the filing of a new claim to establish a benefit year in order to file an EUC claim based on that prior benefit year, is the EUC entitlement determined based on the level payable by the State at the time of the prior EUC denial?

Answer. No. In such cases, EUC entitlement is based on the level of benefits payable at the time the claimant elected to postpone the regular claim. Prior to July 3, 1992, this claimant did not have a valid EUC claim because of the base period earnings requirement. He/she was not affected by the definition of an "exhaustee."

2. Question. When a claimant who was ineligible for EUC prior to July 3, 1992, because he/she failed to meet the base period earnings test elects to defer regular benefits to file an EUC claim based on that prior benefit year, is the EUC entitlement determined based on the level payable by the State at the time of the prior EUC denial?

Answer. No. EUC entitlement is based on the level of benefits payable at the time the claimant elected to postpone the regular claim. Although the claimant in this case has been allowed the option to defer benefits, the benefit levels provided under the provisions of Section 102(b)(2)(B) of P.L. 102-318 do not apply as such claimants were not denied EUC benefits because of regular benefit entitlement.

3. Question. Prior to July 3, 1992, the claimant(s) was ineligible for EUC for failure to satisfy the base period earnings test. After July 3, 1992, such a claimant elects to postpone the filing of a claim to establish a new benefit year or defer regular benefits to file for EUC based on the prior benefit year or wants to file an EUC claim under the new base period earnings requirement. What level of entitlement applies?

Answer. The level applicable at the time of the election. The claimant(s) was ineligible for EUC prior to the alternative base period earnings test provisions of the July 3 amendments for monetary reasons, not because of the definition of an "exhaustee."

The following questions pertain to Eligibility.

1. Question. When a disqualification has been issued on an EUC claim which was based on a prior benefit year, and the claimant has subsequently established a new benefit year and has been determined eligible for regular benefits and has a benefit balance, should the individual be offered an EUC election?

Answer. Yes. However, if the individual has not satisfied the EUC requalifying requirement, no EUC benefits are payable. An EUC disqualification carries forth through the entire EUC "period of eligibility" (i.e., 11/17/91 through 3/6/93).

2. Question. If a claimant was in regular benefit status for the first week beginning after July 3, 1992, must the individual's election to defer regular benefits be effective with that first week if notice of the election is not provided until a later date?

Answer. Yes. The election to defer rights to regular benefits is effective for week of unemployment beginning after July 3, 1992. If an individual is in benefit status and does not elect EUC effective with the first week of unemployment beginning after July 3, 1992, the individual has elected to receive regular benefits. Therefore, no further election is available under Section 102(b)(2)(B) of the UC Amendments of 1992.

3. Question. If an individual had a benefit year ending before July 3, 1992, with entitlement based on non-educational wage credits and prior to July 3 was determined ineligible because of a "between terms denial" on a second benefit year, does the individual have an election to file an EUC claim based on the prior benefit year?

Answer. No. This individual is not an "exhaustee" under the provisions of 20 CFR 615 and has no rights to regular benefits to defer under the provisions of Section 102(b)(2)(B) of P.L. 102-318. However, if such an individual has no benefit year established and has rights to establish a new benefit year, he/she has an election under Section 102(a) of P.L. 102-318 (Section 101(f), EUC Act).

The following questions pertain to EUC to EB transition.

1. Question. If an EB period begins after the EUC program ends for initial claims (March 6, 1993) and a claimant has a EUC balance, is the claimant allowed to continue to receive EUC, or must he/she file an EB claim?

Answer. When an EB period triggers "on" in a State after March 6, 1993, the claimant is entitled to receive the greater of EUC or EB. If an EB period triggers "on" before March 6, 1993, and the claimant has EB entitlement, no additional EUC benefits are

payable until EB exhaustion and the claimant's EUC account has been reduced, but not below zero, by the amount of EB payments paid.

2. Question. If an EB period begins during an individual's benefit year on the basis of which the claimant has already received EUC benefits, is the claimant entitled to EB based on the same benefit year?

Answer. Yes. If a claimant has an "applicable benefit year" for EB purposes, entitlement to EB is determined without regard to prior EUC payments. EB entitlement is not reduced by EUC benefits.

The following questions pertain to Combined Wage Claims.

1. Question. States were instructed in GAL 4-92, Change 4 to discontinue charging transferring States for EUC benefits based on combined wage claims effective with payments issued on and after July 1, 1992. If a paying State determines that some charges to a transferring State for one or more of the quarters ending December 31, 1991, March 31, 1992, or June 30, 1992 need to be adjusted because of a prior error or subsequent determination, what procedure should the State follow?

Answer. The paying State will take the necessary actions to ensure that EUC payments to the claimant are properly adjusted and documented. The paying State will take no action to notify a transferring State of any redeterminations, overpayment determinations or error corrections, etc.

2. Question. For benefits paid prior to July 1, 1992, transferring States were responsible for accounting for drawdowns from the EUCA account to reimburse paying States for EUC benefits attributable to CWC claims. If after July 1, 1992, paying States are not required to advise transferring States of adjustments to EUC payments nor adjust prior charges, how will the transferring State adjust its EUCA drawdowns to reflect the correct payments?

Answer. The documentation of the original IB-6 charges will remain in place to justify the transferring State's drawdown. This documentation will accurately reflect the transferring State's actions. The paying State's records will accurately reflect the payments to the claimant and any adjustments to the EUCA account.

PREPARED STATEMENT OF SENATOR DONALD W. RIEGLE, JR.

I commend the Chairman for holding this hearing and for his leadership on this issue. It is absolutely critical that we act quickly to extend the emergency unemployment benefits program.

For those of us in Congress who have led the effort to create an effective unemployment insurance program it is gratifying to see leadership from the President. I welcome Secretary Reich this afternoon and I look forward to working closely with him to protect our working people.

The emergency unemployment benefits program, which provides additional coverage to those who have used up their regular State unemployment insurance benefits provides working people who have been sidelined by the sluggish economy with additional protection. Approximately, one million five hundred thousand American working people are expected to use up their State benefits over the next six months. Without an extension of the emergency unemployment benefits program, many families will have a great deal of difficulty weathering the current jobs recession.

Although the economy has grown slightly this year, it has not translated into new jobs. We are still mired in a jobs recession that began over thirty months ago. Over this period two million jobs have disappeared and have not returned. Over nine million Americans are listed as unemployed, but when you add the number of people who want to work but cannot find it and the number of people who have part-time jobs, but want full-time jobs, more than fifteen million Americans need jobs.

Unfortunately, the employment picture does not appear to be getting any brighter. The Congressional Budget Office projects that job creation will continue to lag through the end of the year. We simply cannot afford to leave our working people without this needed protection during this difficult period.

We must act quickly to pass the legislation sent here by the President so that there is no break in coverage. But we must also begin to examine ways to improve the effectiveness of unemployment insurance. Only about half of unemployed workers currently are covered by unemployment insurance. This represents a decline in coverage from previous recessions. More Americans should be covered. We should seriously consider proposals to create a stronger extended benefits program that goes into effect automatically when unemployment rates reach a high level. The permanent extended benefits program passed into law last year was an improvement, but we should do more. In addition, we must re-examine the system to ensure that states have the administrative funds to run the program effectively.

Finally, we must develop an economic strategy that creates jobs in Michigan and across America. The economic blueprint the President outlined last night has promise. It is a fair and balanced program that focuses on the problems of the American economy. We must invest in America to build a stronger future. The President's support of the emergency unemployment compensation program is strong evidence of his commitment to meeting the needs of Americans.

Again, I welcome Secretary Reich this afternoon, and I look forward to working with him and the President to strengthen this economy.

 PREPARED STATEMENT OF SENATOR JOHN D. ROCKEFELLER IV

Mr. Chairman: My state of West Virginia has suffered enormously over the last few years of recession and economic downturn. Our state's unemployment rate has stubbornly remained among the highest in the nation. In December 1992, it rose from 9.8 percent to 10.4 percent.

To convert these percentages into real terms, this means that 4,800 West Virginians became unemployed during the Christmas season. Families were placed in jeopardy, not knowing where they could find a new job or when they could earn their next paycheck.

In my view, this is not a recovery.

Last week, I wrote President Clinton and strongly urged him to aggressively pursue an economic stimulus package that would create jobs and hope in West Virginia and across the country.

I commend our President for following through on this plan and announcing his bold agenda for economic growth and serious deficit reduction in his address to the Congress last night.

I share the President's view that we should extend unemployment benefits beyond the traditional 26 weeks to help the unemployed cope during this economic downturn. When the unemployment rate is so high, it obviously takes longer for people to find another job with wages that will pay the bills and provide for a family.

Our unemployment compensation system is supposed to take such hard times into consideration with an automatic triggering of extended benefits during tough times. But we've learned during this recession that the system isn't working as it should. Congress realized this and pushed and persuaded until President Bush finally agreed to provide emergency extended unemployment benefits. This year, it's good to see that the White House is willing to take the lead in pushing for relief for the unemployed and the families.

Also, I want to welcome to the Senate Finance Committee, Andy Richardson, the WV Commissioner for Employment Programs and a personal friend. Andy Richardson has years of experience and a deep personal commitment to public service. As Governor of West Virginia years ago, I appointed Andy to work on employment security issues, and I am proud that he is here to testify today on this critical issue for West Virginia and our country.

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Chairman Moynihan and members of the Finance Committee, thank you for this opportunity to testify on behalf of S. 382 to extend the Emergency Unemployment Compensation benefits.

In the wake of every recession since the 1950's, the Congress has provided extended benefits to workers exhausting their regular state UI benefits. This program serves both humanitarian and economic purposes. In the best of times, many hard working Americans cannot find work before they exhaust the standard 26 weeks of state UI benefits. However, in recessions, the chances of finding a job in 26 weeks fall sharply, causing millions of additional workers to exhaust their state benefits. When the federal government helps out in the wake of recessions by providing extended benefits, it supports spending in the hardest hit local economies which stabilizes the national economy.

As you recall, when you chaired this committee's hearing on this problem almost two years ago, the Administration argued that the recession was short and shallow so that no special attention needed to be paid to the difficulties of long term unemployment. As a witness in that hearing and as chairman of several Joint Economic committee hearings on the problem of long term unemployment, I predicted that the problems of long term unemployment would worsen, even if the economy turned around. Much of 1991 was spent debating the issue. Finally, when the Administration could no longer deny the seriousness of the unemployment problem, we enacted effective legislation in November 1991.

The proposed \$5.4 billion extension of the EUC program from March through September forms a critical element in the President's short term stimulus package for a still wobbly economy. Not to extend the program would have a contractionary effect on the economy. Furthermore, not to extend the program would be cruel to those millions of workers expected to exhaust state benefits over the next seven months. Not to extend would force many into poverty and the welfare system.

LABOR MARKET CONDITIONS STILL RECESSION-LIKE

Although the nation's output has been recovering slowly since early 1991, *labor market conditions still look more like those of a recession than those typical of a 22 month old recovery*. Especially for the types of workers eligible for extended benefits (unemployed long term after losing their job), the job market has never been so bleak this long after a recession. Such unanticipated conditions justify the declaration of an "emergency" under the 1990 budget act.

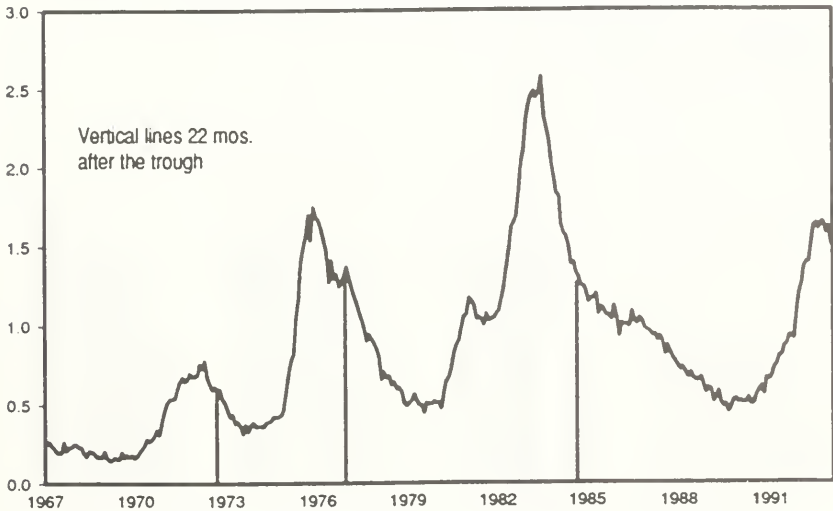
Typically, the unemployment rate falls steadily soon after a recession ends. Yet January's unemployment rate of 7.1 percent stood higher than the 6.8 percent at the recession's end. Never before has the unemployment rate been higher 22 months into a recovery than when the recovery began.

More to the point, *the number of workers unemployed longer than 26 weeks* (the length of most regular state UI programs) *has more than doubled since the end of the recession*, in contrast to the pattern of typical recoveries. As of January, almost two million workers had been unemployed longer than 26 weeks, up from 600,000 when the recession began in 1990 and 900,000 when the recession ended. As Figure 1 indicates, by the twenty-second month of prior recoveries, the number of long term unemployed had declined sharply. In January, 1.5 percent of the labor force had been unemployed longer than 26 weeks, a level exceeded only by the peak unemployment rates of the 1975 and 1982 recessions.

Figure 1

Long Term Unemployment Still at Recession Levels

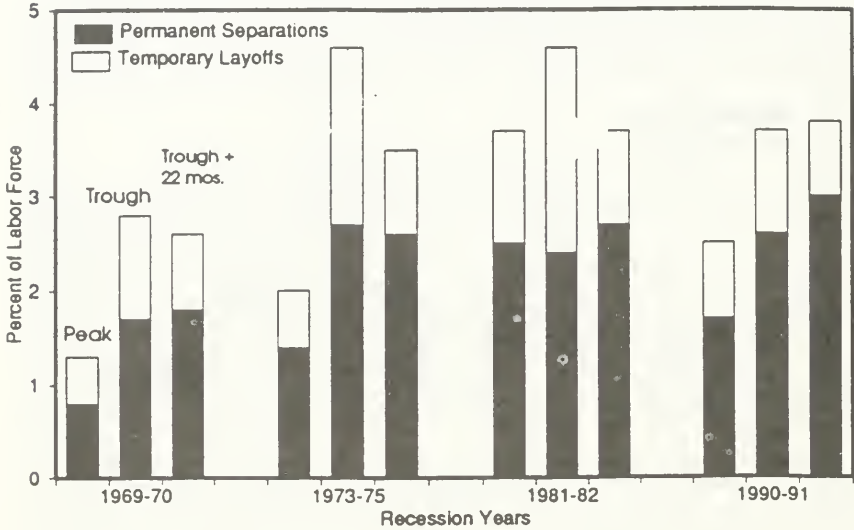
(Unemployed More than 26 Weeks, As a Share of the Labor Force)



An important hallmark of this recession and sluggish recovery has been the very large number of workers permanently separated from their jobs. As shown on Figure 2, the situation is worse today than when the recession ended, in contrast to the pattern in past recoveries. In fact, today's 3.0 percent of the labor force unemployed after permanent job permanent separation has been exceeded only at the worst stages of previous recessions and early recovery periods. Note that by 22 months after the 1982 recession, when total unemployment hit 10.8 percent, the ranks of unemployed workers permanently separated from their last job had fallen significantly below today's level.

Figure 2

Unemployed Job Losers Still at Recession Levels (Start, End of Recession vs. 22 Months Later)



CONCLUSION

Today's recession-like conditions for unemployed workers justify the proposed extension of the Emergency Unemployment Compensation program. When we began the program in 1991 and even when we last extended it last summer, we hoped that the labor market would be much stronger by now. Unfortunately, due to poor job opportunities, 1.6 million workers are still receiving EUC benefits. An additional 300,000 workers a month are exhausting their regular state unemployment benefits.

Mr. Chairman, I urge the prompt enactment of this legislation to continue the EUC program.

COMMUNICATIONS

STATEMENT OF THE NEW YORK UNEMPLOYED COMMITTEE

CLINTON'S PROPOSED UNEMPLOYMENT BENEFIT EXTENSION EXCLUDES THOSE WHO NEED IT MOST-- EXTEND BENEFITS FOR ALL WHO NEED IT

We are submitting this testimony into the public record for the February 18, 1993 Senate Finance Committee hearing on President Clinton's proposed extension of the Emergency Unemployment Compensation (EUC) program, on behalf of all those who would be **EXCLUDED** from receiving further weeks of unemployment benefits under the current proposal. Clinton's proposal would only provide additional weeks of benefits for those exhausting their first 26 weeks of benefits, **excluding those who have either exhausted all unemployment benefits or currently receiving extended benefits.**

Our delegation of unemployed workers from New York came to this hearing today to urge an amendment for a "reach-back" provision to the current proposal that would include the 1.7 million people nationwide currently on the extension, as well as another 1.5 million who have exhausted all available benefits since May 1992. Clinton's proposal would **not** provide further benefits to either group, **LEAVING OUT IN THE COLD THOSE WHO NEED IT THE MOST.** In particular, we have urged our New York Senator **Daniel Moynihan**, who chairs the Senate Finance Committee to introduce such a "reach-back" amendment.

Unfortunately, we were neither informed of this hearing in advance, nor invited to present public testimony before the Committee to urge such an amendment. We strongly object to the fact that **not a single representative of the unemployed** testified here today, especially since we come from the state most affected by Clinton's exclusion.

Over 200,000 New Yorkers have exhausted all benefits since July 1992 and another 175,000 currently receive extended benefits; both figures are the **largest in the country.** New York City, with its record high **13.4%** unemployment rate, accounts for **125,000** of those exhaustees, **larger than every state but a few.** Contrary to the facile assumption that we will



go straight from the unemployment line to welfare, many of us find ourselves in a "no-mans land" without a job or income and unable to qualify for public assistance--until we are totally **DESTITUTE**.

We feel **betrayed**, and it is especially revealing that with all the **rhetoric of concern, not a single member of the Senate Finance Committee,**

Democrat or Republican, proposed a "reach-back" provision. **THE SILENCE FROM OUR ELECTED REPRESENTATIVES IS DEAFENING.** Instead, the debate has focused on a contrived issue of how to finance the administration's proposal. Clearly, there is a bi-partisan consensus to ignore, to not mention, to exclude from the discussion, those who need the extension the most. It is also obvious why not a single witness at this hearing has urged a "reach-back" provision. **You can try to ignore us--but we will not go away.**

CLINTON'S PROPOSAL OFFERS NOTHING to those who have used up all available benefits or those currently receiving extended benefits through the Emergency Unemployment Compensation (EUC) program. With IBM, Sears, Boeing, GM and others announcing huge layoffs, it is politically inconceivable that Clinton would not renew the extension at least for those exhausting their first 26 weeks of benefits. **GEORGE BUSH WOULD HAVE HAD TO DO THE SAME.**

In announcing his proposal, President Clinton coupled the extension with a desire to help the "permanently dislocated" worker with job training and counseling. If he really wants to help the "permanently dislocated worker", the first place to begin is to **provide another benefit extension until we find jobs.** *Otherwise, it is just empty rhetoric.*

The additional few billion dollars that would be required to provide such a reach-back provision would not have a significant impact on the administration's overall deficit reduction plan--but **it could mean economic survival for millions.** There is also \$3.5 billion dollars still in the fund used to finance the current extension--why could not there be some combination of deficit and pay-as-you-go financing to provide more weeks of benefits for those who need it the most? And if job creation does pick up, as some predict and we all hope, fewer people would use the extension--but it would at least be available to hard hit areas like New York and California.

And to those who claim that providing more than 52 weeks of unemployment benefits is a "dis-incentive" to work, the entire unemployment insurance system can be considered a "dis-incentive" to work, and in fact part of its purpose is to buy time to find jobs at comparable pay to our last job--instead of being driven back to work at pay 1/3 or 1/2 of our former pay. It is an insult to the workers of this country, with perhaps the strongest "work ethic" in the world to claim we would rather be unemployed than working. **And we challenge you to come to New York City, and show us the jobs we would be "dis-incentived" from.**

The administration has chosen to designate their extension proposal an **emergency** budget item. If the Taystee bakery workers from Queens New York, the shipyard worker from Philadelphia, the office manager from New York all now exhausting their last unemployment checks do not qualify as a national emergency, as a **crisis deserving of special measures by our government**, then what does? The bottom line here is **priorities**, not finances, as is demonstrated every time every time the government finds funds *without blinking an eye* whenever some international or national crisis arises, whether it be Hurricane Andrew, the S&L bailout, or bombing Iraq.

We are also here to express our concern about a number of other related issues--such as the inadequacy of Clinton's proposed **jobs program**, which narrowly focuses on infrastructure jobs, and does not target either the long term unemployed, nor the depression level 14% unemployment rate in the Black community. The campaign promise of 2 million jobs a year has been reduced to a microscopic 250-500,000 jobs over two years--**not even enough to make a statistically significant impact on the unemployment rate**.

And in a few weeks, many unemployed will have to pay **taxes on our unemployment benefits** when we cannot even pay our rent, mortgage, or medical bills. The delegation of homeless people brought here today by Reverend Timothy Mitchell of Ebenezer Baptist church in New York is a testament to what the consequences are for more and more people. **We are the wrong people to be taxed**. We want President Clinton to remove the taxation of unemployment benefits, a policy initiated under President Carter. And we need immediate measures to **guarantee access to health care for all**.

We would also like to take this opportunity to offer some suggestions to the Labor Department:

1. Change the **inexplicable policy of excluding discouraged workers from the main unemployment rate** reported to the public every month. The unemployment rate has fallen 3 times in the last five months **not** because of increased employment but because the number of discouraged workers has leaped from 1.1 million to 1.8 million. Recent proposals to change how the national unemployment rate is calculated would evidently continue this policy.
2. The technology exists to **establish a nationwide computerized job bank**, listing all available jobs throughout the country. Perhaps the reluctance to do so stems from the fear that it would reveal the great disproportion between job-seekers and jobs available. One recent study showed that the ratio of jobs to job-seekers in New York City was **one opening for every 9 job seekers**.
3. The New York Unemployed Committee recently published a pocket sized, 32 page pamphlet, written in plain language, entitled "**Unemployed? What**

You Should Know About Services and Programs Available to the Jobless" to fill what we knew was a need among unemployed people for centralized and accessible eligibility information and phone numbers and addresses of major social service programs like food stamps, help with heating and utility bills, health care facilities, etc. Despite relatively little publicity, we have been overwhelmed by the demand for this information, receiving over 3500 requests by mail. Another 12,000 copies have been directly distributed at unemployment offices throughout the New York area, and we are about to do a second printing. ***The Department of Labor should make sure that such a comparable "survival guide" guide is available in every unemployment office in the country.***

4. Do a **tracking survey** of those who have been left out in the cold by the administration's proposal, to see how long people go without a job after exhausting all benefits, and what happens to them.

We would like to thank Labor Secretary Reich for taking the time immediately before the hearing to meet with our delegation of about 50 unemployed people who came to this hearing from New York, New Jersey, and Pennsylvania. It was a courtesy never extended by his predecessor. While we appreciate his expressions of concern, sympathy is not going to pay our bills. We again urge the administration to come up with **something concrete to address this special situation.**

Finally, we have a **question that we would like to get an answer to.** If the Clinton administration is *not going to provide more weeks of unemployment benefits* for those excluded by their proposal, *nor give exhaustees priority in a substantial jobs program*, and if our elected representatives are not going to fight the administration on this point, and if most of us will not be able to get on welfare until we are destitute, and those who do get public assistance still cannot survive on their welfare grants, **WHAT WOULD YOU SUGGEST WE DO?**



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